



Mary Taylor, CPA
Auditor of State

MILFORD EXEMPTED VILLAGE
SCHOOL DISTRICT
PERFORMANCE AUDIT

DECEMBER 16, 2008



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Auditor of State

To the Residents and Board of Education of the Milford Exempted Village School District:

On March 27, 2008, Milford EVSD was placed in fiscal caution due to the possibility of ending FY 2008-09 with a deficit as well as the potential for deficits in future years. In accordance with ORC § 3316.031 (B)(1), the Department of Education declared Milford EVSD to be under a fiscal caution because of a projected deficit for FY 2008-09. Subsequently, under ORC § 3316.042, the Auditor of State initiated a performance audit of Milford EVSD. The four functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations which support its mission of educating children, and because improvements in these areas can assist in eliminating the conditions which brought about the declaration of fiscal caution.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Milford EVSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to continue to assess overall operations and develop other alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the fiscal caution designation; a district overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to Milford EVSD, and its contents discussed with the appropriate officials and District management. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 16, 2008

Executive Summary

Project History

Ohio Revised Code (ORC) § 3316.031 allows the Ohio Superintendent of Public Instruction, in consultation with the Auditor of State (AOS), to place a school district in fiscal watch or fiscal emergency if certain conditions are met. ORC §3316.03 further stipulates that the State Superintendent may declare a school district in fiscal caution if it identifies fiscal practices or budgetary conditions that if left uncorrected could lead to fiscal watch or emergency conditions. If fiscal caution is declared, the school board is given 60 days to provide a written proposal to ODE that outlines a plan to correct the practices or conditions that led to the declaration.

The Ohio Department of Education (ODE) placed Milford Exempted Village School District (MEVSD or the District) in fiscal caution on March 27, 2008 due to the possibility of ending FY 2008-09 in a deficit as well as the potential for deficits in future years. ORC § 3316.042 permits AOS to conduct a performance audit of any school district in a state of fiscal caution, watch, or emergency and review any programs or areas of operations in which it believes that greater operational efficiency, effectiveness, and accountability can be achieved. Due to the financial projections of the District, MEVSD was selected to receive a comprehensive performance audit.

Based on AOS research and discussions with MEVSD officials, the following four functional areas were included in the performance audit:

- Financial Systems;
- Human Resources;
- Facilities; and
- Transportation.

The goal of the performance audit process was to assist District administrators and the Board of Education in identifying cost saving opportunities and improving management practices. The ensuing recommendations comprise options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

District Overview

MEVSD is located in Clermont County and encompasses 31 square miles. The District operates under an elected Board of Education consisting of five members. In FY 2007-08, MEVSD's preschool through grade 12 enrollment was 6,468 students. MEVSD provides educational services to its students in nine buildings, including a high school, a junior high,¹ six elementary schools, and a preschool. MEVSD also transports its students to approximately 35 non-public and community schools.

In FY 2006-07, MEVSD received approximately 56.5 percent of its total revenue from local taxes, 40.8 percent from the State, and 2.7 percent from federal grants and other sources. Total revenues were approximately \$52 million. In FY 2006-07, per pupil expenditures were \$8,432.²

In FY 2007-08, MEVSD employed 710.33 full-time equivalent (FTE) staff consisting of 26 FTE administrators, 377.3 FTE educational personnel, 16.4 FTE professional personnel, 87.3 FTE technical personnel, 39.9 FTE office/clerical staff, and 163.5 FTE operations and other support staff. The regular education student-to-teacher ratio in FY 2007-08 was approximately 19.5-to-1.0.³ Based on the FY 2006-07 ODE Local Report Card, MEVSD met 26 of 30 performance standards and received ODE's academic designation of excellent.

MEVSD was projected to end FY 2007-08 with a negative balance in its General Fund of approximately \$1.3 million. In addition, the FY 2007-08 October five-year financial forecast projected a FY 2008-09 General Fund deficit of approximately \$2.4 million, excluding new levies. The General Fund deficit was projected to increase to approximately \$19.6 million by FY 2011-12. After being placed in fiscal caution status, MEVSD submitted a fiscal caution financial recovery proposal on May 15, 2008 which identified approximately \$2.5 million in total savings for FY 2008-09.

On April 25, 2008, ODE formally accepted MEVSD's fiscal caution financial recovery proposal. This proposal outlined MEVSD's approved reductions for FY 2008-09 which included approximately: \$1.2 million in salaries; \$537,000 in benefits; \$708,000 in purchased services; and \$55,000 in supplies and materials. MEVSD completed an updated five-year financial forecast which was approved by the Board on May 15, 2008 (see **Table 2-1 in financial systems**). This five-year forecast addressed MEVSD's previously projected FY 2008-09 General Fund deficit. The updated forecast projects positive unreserved General Fund balances of

¹ MEVSD's Success Academy (alternative school) is located within a single modular unit which is on the grounds of the junior high building.

² Expenditures per pupil are based on the District's formula average daily membership (ADM) as reported on ODE's SF3 reports.

³ Per pupil staffing ratios are based on the District's FTE staffing and percent of time enrollment.

approximately \$2,978,000, \$3,109,000, \$2,021,000 in FY 2008-09, FY 2009-10, FY 2010-11, respectively, and a projected General Fund deficit of \$201,000 in FY 2011-12.

The performance audit illustrates additional opportunities for reductions in expenditures and efficiency enhancements in several areas of District operations. The revised forecast in **financial systems** indicates that if MEVSD implements the performance audit recommendations and limits its future spending, it will operate with a positive fund balance through the end of the forecast period.

Subsequent Events

After the conclusion of the fieldwork and prior to the release of this report, MEVSD made changes in operations that yielded additional cost savings or operational enhancements. These are detailed below:

- In October 2008, MEVSD submitted an updated five year forecast to ODE. This forecast projected a positive year end unencumbered fund balance of \$1.2 million in FY 2011-12 and a year-end deficit of \$3.4 million for FY 2012-13. It includes several cost reductions that MEVSD has already made.
- For the start of FY 2008-09, the District implemented a three-tiered bus routing system. The move to a three-tiered routing system enabled MEVSD to eliminate 10 bus routes. In addition, the District deemed transportation services impractical to seven private/parochial schools.
- In November, 2008, MEVSD residents passed a levy issue which will provide the District with additional revenue.

Objectives

The overall objective of the performance audit is to review any programs or areas of operation in which AOS believes that greater operational efficiency, effectiveness, and accountability for services can be achieved and to assist MEVSD in identifying strategies to eliminate the conditions that brought about the fiscal caution declaration. The process involved significant information sharing with the district, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. The recommendations comprise options that the District can consider in its continuing effort to stabilize the financial condition. Major assessments were conducted for this performance audit in the following areas:

- **Financial Systems** includes an evaluation of the reasonableness of MEVSD's FY 2007-08 May Five-Year Financial Forecast along with other financial policies and procedures.

- **Human Resources** includes an analysis of District-wide staffing levels, employee compensation, the collective bargaining agreement, and benefit costs.
- **Facilities** includes an assessment of building capacities and utilization rates, as well as custodial and maintenance operations.
- **Transportation** includes evaluations of bus utilization and key transportation operational information.

A full description of the objectives is listed within each respective report section.

Scope and Methodology

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Audit field work took place between March 2008 and July 2008. To complete this report, the auditors gathered and assessed data from various sources pertaining to key operations. Auditors also conducted interviews with District personnel and reviewed and assessed information from MEVSD and other school districts.

AOS developed a composite of 10 selected districts which was used for peer comparisons. The selected districts were Anthony Wayne Local School District (Lucas County), Canfield Local School District (Mahoning County), Green Local School District (Summit County), Jackson Local School District (Stark County), Lake Local School District (Stark County), North Canton City School District (Stark County), Northmont City School District (Montgomery County), Poland Local School District (Mahoning County), Tipp City Exempted Village School District (Miami County), and Wadsworth City School District (Medina County).

These districts are classified as urban or suburban with high median income, low per pupil costs, and an academic designation of excellent. As a group, these districts represent a high level of financial and academic performance and, as a result, benchmarks derived from their operations typically illustrate above average performance. The data obtained from the comparison districts was not tested for reliability, although it was reviewed in detail for reasonableness. Also, external organizations and sources were used to provide comparative information and benchmarks. They included, but were not limited to, ODE, the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), the National Center for Education Statistics (NCES), and other related recommended practices. Information used as criteria (benchmarks or recommended practices) was also not tested for reliability.

As noted previously, the performance audit process involved significant information sharing with the District. Furthermore, periodic status meetings were held throughout the engagement to

inform the District of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District was invited to provide written comments in response to various recommendations for inclusion in this report. These comments were taken into consideration during the reporting process and, where warranted, resulted in report modifications.

The Auditor of State and staff express their appreciation to MEVSD for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific District accomplishments identified throughout the course of the audit.

- MEVSD prepared a fiscal caution financial recovery plan which not only addressed the District's FY 2008-09 projected General Fund deficit, as required by ODE, but also nearly eliminated General Fund deficits over the forecast period. MEVSD's recovery plan will allow the District to operate until FY 2011-12 with positive General Fund balances. While the recovery plan necessitated significant staffing and service reductions, MEVSD made difficult decisions to respond to and resolve its projected General Fund deficit.
- The inclusion of streaming video and archived video of Board meetings on its web site allows MEVSD stakeholder and interested parties to hear and see Board meetings as they take place. Providing Board meeting information in multiple formats helps to ensure that all District stakeholders have access to the information in the manner of their choosing.
- MEVSD uses a biometric time-clock system (Kronos) to track all classified staff time and attendance. Using Kronos ensures the District only pays employees for the time they have worked. In addition, the District uses the data generated by Kronos to ensure that payroll is submitted, processed, and paid accurately.
- MEVSD's Human Resource (HR) Department employed successful communication strategies with administrators, including building principals, when identifying the staffing reductions and adjustments necessary to address the projected deficit. One-on-one meetings with building principals helped the HR Department obtain a thorough understanding of the personnel requirements in each building. These meetings enabled the development of a recovery plan that not only addressed the District's financial needs but also resulted in optimal staffing levels.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide the District with options to enhance its operational efficiency and improve its long-term financial stability. The areas assessed involve complex issues and the reader is encouraged to review the recommendations in their entirety. The following are brief synopses of the key recommendations from the performance audit report:

In the area of **financial systems**, MEVSD should:

- Develop an updated District-wide strategic plan which outlines the strategic vision for all operational and educational programs. In preparing the plan, MEVSD should include detailed goals, objectives, benchmarks, timeframes, performance measures, cost estimates, and funding sources. In addition, MEVSD should link the strategic plan to the annual budget, the five-year forecast, the comprehensive continuous improvement plan (CCIP), and the facilities master plan. This approach shifts the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs, and ultimately to the accomplishment of the goals and objectives stated in the District's strategic plan.

During the course of the audit, the Superintendent began identifying community resources to assist in the development of an updated strategic plan. The Superintendent indicated that when finished, the plan will:

- **Reflect stakeholder priorities;**
 - **Contain measurable benchmarks and goals;**
 - **Provide a clear link between the programs within the plan and funding sources; and**
 - **Allow the District to track and report progress on an ongoing basis.**
- Financial audits conducted over the past three years resulted in unqualified statements of financial opinion and no findings of any material internal control weaknesses reported at the financial statement level or for major federal programs. However, MEVSD could improve its internal controls over several financial areas by expanding and, when appropriate, updating existing policies and procedures. Furthermore, MEVSD should evaluate its policies and procedures on an annual basis to ensure that they are in line with management and District goals, and appropriately address identified risks and previously identified weaknesses. Proper internal control procedures will help ensure that District resources are protected and personnel comply with formalized processes.

- Revise its projections for personal services for FY 2009-10, FY 2010-11, and FY 2011-12 to incorporate conservative negotiated wage increases. MEVSD has forecast personal services to account for modest step increases only. By failing to project any negotiated increases during the forecast period, MEVSD is presenting an overly optimistic scenario which is not likely to account for all future personal service obligations.

In addition, MEVSD should revise and clarify forecast assumptions in the following areas:

- Employee retirement and insurance benefits (ERIB);
- Purchased services;
- Supplies and materials; and
- Required textbook and capital outlay set-asides.

During the course of the audit, the Treasurer applied some of the performance audit recommendations to the District's forecast.

In the area of **human resources**, MEVSD should:

- Develop a formal staffing plan to address current and future staffing needs, similar to the plans used by leading school districts. Establishing staffing allocations for administrative, certificated, and classified personnel will assist the District in better planning for the future. Additionally, the development of a formal staffing plan will help MEVSD ensure that it is in compliance with State and federal requirements. The plan should illustrate how staffing and related costs impact the District's financial condition and overall mission and goals.

During the course of the performance audit the Board approved the District's fiscal caution financial recovery plan which includes the elimination of 13 aides and reduces the number of days worked by Milford Preschool aides for FY 2008-09. In addition, the District developed a staffing plan illustrating the number, purpose, and cost of teaching aides within each school building.

- Continually review its need for support staff and consider implementing reductions to relieve the General Fund of some of the related financial liabilities. If the District does not implement recommendations in the performance audit and other strategies to reduce costs, it may need to consider eliminating additional classified educational support staff positions. When determining reductions in these areas, MEVSD should consider the financial and academic impact the staffing changes will have.

During the course of the performance audit, the Board approved the District's fiscal caution financial recovery plan, which includes the elimination of 13 aide positions

and reduces the number of days worked by Milford Preschool aides for FY 2008-09. In addition, the District developed a staffing plan illustrating the number, purpose, and cost of teaching aides within each school building.

- Consider discontinuing the pick-up on the pick-up retirement benefit offered to its administrative staff. Covering the required employee retirement contribution for its 28 administrators is costly to the District and is a form of compensation the Board is not required by law to provide. Eliminating this benefit will reduce expenditures and may allow the District to avoid reductions in other areas such as personnel, that may directly affect the education of students. The District may need to renegotiate this provision in its administrators' employment contracts or wait to implement this recommendation until the current contracts have expired. In addition, implementation of this recommendation may require negotiation with administrators on salaries and wages.
- Negotiate a pro-rated contribution scale for part-time employees receiving health insurance from the District. Requiring employees working less than seven hours per day to contribute a pro-rated monthly premium percentage would decrease MEVSD's share of health insurance expenditures.
- Attempt to renegotiate provisions in its collective bargaining agreements which exceed State minimums and typical provisions in Ohio school district bargaining agreements. These provisions limit MEVSD's ability to control costs and successfully plan for the District's future financial position. Successful renegotiations to limit or remove contract provisions that exceed State requirements or are contrary to recommended practices would increase MEVSD's ability to reduce costs and avoid future financial deficits. Items that exceeded State minimum requirements or peer averages include maximum sick leave accrual and payout at retirement, the number of paid holidays, and the rate of vacation accrual.
- Evaluate opportunities and strategies to reduce direct special education expenditures to a level comparable to the peer average. These should include, at minimum, ongoing assessments of staffing needs and services, potential benefits of partnering with other districts for the provision of specialized instructional programs, and evaluation of the contracted services through the Clermont County Education Service Center. The District should expect this process to span several fiscal years.

During the course of the audit, the District stated that it was implementing additional training for teachers, targeted interventions, and core program and individualized education program reviews in an effort to reduce its costs in this area.

In the area of **facilities**, MEVSD should:

- Develop a facilities master plan that includes all recommended elements including a five-year capital improvement plan and maintenance projects. The facilities master plan should be updated at least annually to include overall health and safety information received from the County Board of Health and information received from the building evaluations performed by the Director. In addition, the facilities master plan should contain up-to-date enrollment projections and capacity analyses for all District buildings. These documents, or planning tools, are essential for long-term facilities management and efficient District facility operations. With implementation of an effective facilities master plan, MEVSD would be in better position to make important facility-related decisions based on complete and accurate information.
- Amend its work order process to include prioritization guidelines combined with an estimated time of completion for each priority level. The maintenance priority list should rank health, safety and life threatening issues as a top priority. Clear communication of this priority list will help those initiating work orders understand not only the amount of time it may take the maintenance department to complete a work order repair, but also the order in which their request may be addressed.

Furthermore, MEVSD should develop a formal preventive maintenance program for all school buildings much like the one required by the OSFC for its four new elementary buildings. A well-developed preventive maintenance program ensures equipment reliability, reduces operating costs and increases the life expectancy of facilities and equipment. The formal preventive maintenance program should be integrated into the District's existing work order system.

MEVSD administrators stated that they had implemented prioritization guidelines during the course of the audit.

- Augment its energy conservation policy by developing and implementing operating procedures designed to reduce energy consumption; periodically conducting energy/building audits; tracking energy usage and costs; and implementing a program to educate staff and employees on energy conserving behaviors. When the opportunity arises for the District to add another HVAC monitoring system, it should ensure that no bids are accepted unless the system is compatible with existing systems and can be run from a central/existing location.

Reduce custodial staff by at least 2 FTEs and accurately identify the maintenance responsibilities of the head custodians. The District's custodial staff may be able to maintain the same level of cleanliness in the schools with the development of specific procedures contained in a custodial handbook and reinforced through training.

During the course of the audit, MEVSD eliminated one custodian and is scheduled to eliminate another in FY 2008-09.

- Develop and implement formal performance standards that will be used to consistently evaluate the efficiency and effectiveness of the maintenance and custodial operations and help ensure that all buildings are maintained equitably. The District should use these performance standards to communicate job expectations and assess staff performance, which will invariably enhance the efficiency and the effectiveness of the maintenance and custodial functions.

In the area of **transportation**, MEVSD should:

- Reduce 18 regular needs public buses to bring its public riders-per-bus ratio closer to the recommended utilization rate of 150 students per bus for a three-tiered system. To achieve this ridership level, MEVSD should conduct frequent ridership counts and recalibrate routes to achieve maximum ridership levels. In addition, MEVSD should set a riders-per-bus benchmark at the recommended utilization rate and periodically evaluate the contractor's success in achieving established ridership levels.

In order to increase ridership for non-public yellow bus service, MEVSD should identify schools that can be clustered and served by single routes, request that non-public schools tailor their bell schedules to accommodate transportation service, and increase the use of shuttles. Lastly, in instances where the District feels transportation is impractical or inefficient, it should offer payments-in-lieu of transportation or contract for service with other districts.

During the course of the audit the District changed its two-tiered routing system to a three-tiered routing system in an effort to reduce transportation costs. Under the three-tier system, the District was able to reduce 10 routes for FY 2008-09. Administrators stated that the FY 2008-09 transportation reports to the Ohio Department of Education showed it had achieved an average utilization rate of 50 riders per bus per tier.

- Seek to eliminate 1.5 FTE clerical/router positions by renegotiating the contractual requirement to employ a router(s). This revised staffing level would better reflect the reduction in service to State minimum levels and bring transportation operational personnel closer to the peer district average. In addition, it would bring the workload for the remaining clerk/routers to a level more commensurate with the peers.

During the course of the audit the District shifted the cost for the Assistant to the Transportation Director position to its Contractor.

- Employ formal benchmarks to better monitor its contract and ensure efficient, high quality service is provided by its transportation Contractor. The District should establish benchmark thresholds for common transportation ratios such as cost per mile, per student, and per bus, as well as riders per bus. It should then periodically assess the Contractor's performance against these established benchmarks to ensure that service quality remains consistent with the District's expectations.

The District should assign the responsibility of coordinating and monitoring the transportation contract to a specific employee. A formal contract monitor would help ensure compliance with contract terms and performance expectations, aid in the identification and resolution of problems, and be in a position to make suggestions for improvement. Additionally, the monitor should require the Contractor to provide monthly reports for use by the District in evaluating and assessing the performance of the Contractor against the established benchmarks.

Furthermore, prior to any negotiation of contract extensions, renewals, or requests for proposals for a new contract, the Contractor's performance should be fully evaluated in relation to established performance expectations. Specifically, the District should closely examine the student-per-bus ratio and the Contractor's ability to meet the national benchmark. The District should also use bus repair information provided by the mechanics to determine the appropriateness of the bus replacement schedule and renegotiate the price of the extra maintenance charge on buses 12 years and older.

During the course of the audit, the District was able to negotiate a temporary freeze on the additional maintenance fee that its contractor charges for buses 12 years and older.

- Develop and implement a system of written policies and procedures to ensure T-Form information is collected, reviewed, and reported accurately. In addition, the Treasurer and Superintendent should attend ODE transportation training to enable them to better ensure the accuracy of T-Form data.
- Review and update its transportation policies on an annual basis to ensure that written policies reflect the District's practices and the Board's intent. Policies should be clear, accessible on the District web site, developed with community input, and reflective of the service provided (including special education transportation). The policy should identify who has authority to grant exceptions and describe the general process for determining if an exception should be granted.

The District should continue to assess non-routine expenditures but should establish a policy and procedures for their reimbursement. The policy should outline the manner in which fees are established and the appropriate method for tracking and monitoring

services. MEVSD should charge all costs associated with non-routine miles to the appropriate department and fund within the District. Although some special revenue funds may not be able to support all non-routine transportation charges, understanding the nature and magnitude of the transportation costs for particular functions is critical to MEVSD's financial and strategic planning processes.

- Research the feasibility of using contracted services or partnering with other school districts to provide service to special needs students that are transported to schools outside of the District.

During the course of the audit, the District established a partnership with local districts to share expenses for transporting students to the Ohio School for the Blind in Columbus and St. Rita School for the Deaf.

Issue for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. Those issues may not be directly related to the audit objectives or may be issues that were outside the scope of the audit. AOS has identified the following as an issue requiring further study:

Super-severance: MEVSD's certificated and classified agreements both contain provisions referred to as "super severance." These provisions are available to all bargaining unit employees who agree to retire in the first year of eligibility and allow for a lump sum payment of 50 percent of accrued sick leave up to the previously noted maximum of 230 days. These clauses could obligate MEVSD to pay out as much as 115 sick days per retiree.

MEVSD should further study the appropriateness of offering its "super severance." Although the clauses could allow MEVSD to speed reductions through attrition of the District's highest paid employees, the incentive may not actually impact enough eligible retirees' decision to retire within the first year of eligibility. MEVSD could be offering the incentive to employees who would retire in the first year for which they are eligible regardless of the additional retirement incentive. This could represent an increased financial liability rather than a financial benefit as the retirement incentive was originally intended.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of options that MEVSD should consider. Detailed information concerning the financial implications, including assumptions, is contained in the individual sections of the performance audit.

During the course of the performance audit, MEVSD approved staffing reductions for regular education teachers, office/clerical, and custodians for FY 2008-09. These approved reductions are reflected in the District's FY 2007-08 May five-year financial forecast (see **Table 2-1 in financial systems**). Some of MEVSD reductions were made as a result of the audit and may be depicted in the table below.

Table 1-1: Summary of Performance Audit Recommendations (in 000s)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Recommendations Not Subject to Negotiations				
R3.2 Eliminate 7.0 FTE educational support staff by the start of FY 2009-10	\$0	\$138	\$141	\$145
R3.3 Eliminate the pick-up retirement benefit for administrative employees	\$0	\$102	\$151	\$193
R3.8 Reduce special education expenditures	\$0	\$320	\$320	\$320
R4.3 Implementation of energy conservation programs	\$87	\$87	\$87	\$87
R4.4 Eliminate 2.0 FTE custodians	\$76	\$78	\$80	\$82
R5.1 Eliminate 18 regular needs public routes ¹	\$130	\$130	\$130	\$130
R5.2 Eliminate 1.5 FTE clerical/routers	\$72	\$74	\$76	\$78
Subtotal Not Subject to Negotiations	\$365	\$929	\$985	\$1,034
Recommendations Subject to Negotiations				
R3.4 Negotiate a pro-rated health insurance scale for part-time employees	\$0	\$84	\$84	\$84
Subtotal Subject to Negotiations	\$0	\$84	\$84	\$84
Total Cost Savings from Performance Audit Recommendations	\$365	\$1,013	\$1,068	\$1,118

Note: The financial implications summarized above are presented on an individual basis. The magnitude of cost savings associated with individual recommendations could be affected or offset by the implementation of interrelated recommendations. Therefore, the actual cost savings, when compared to estimated cost savings, could vary.

¹ Net of \$720,000 in savings projected by the District in its May 2008 forecast for the elimination of 10 buses in FY 2008-09.

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Financial Systems

Background

This section focuses on the financial systems and strategic management functions within the Milford Exempted Village School District (MEVSD, or the District). The purpose of this section is to analyze MEVSD's current and future financial condition and examine District-wide management policies and procedures in order to develop recommendations for improvements and identify opportunities to increase efficiency. MEVSD's financial management policies, procedures, and operations were evaluated against recommended practices, industry standards, State requirements, operational benchmarks, and data from 10 peer districts.¹ Comparison sources included: the Government Finance Officers Association (GFOA), Ohio Revised Code (ORC), the Ohio Department of Education (ODE), the Auditor of State (AOS), the Ohio Ethics Commission (OEC), the Texas Education Agency (TEA), and the American Institute of Certified Public Accountants (AICPA).

Financial History

ORC § 3316.03 allows AOS to place a school district in fiscal watch or fiscal emergency if certain conditions are met. ORC § 3316.03 was amended effective April 10, 2001 to give ODE the ability to place a school district in fiscal caution if it identifies fiscal practices or budgetary conditions that, if left uncorrected, could lead to fiscal watch or emergency conditions. If fiscal caution is declared, the school board is given 60 days to provide a written proposal to ODE that outlines a plan to correct the practices or conditions that led to the declaration.

According to the fiscal caution guidelines, a district may be placed in fiscal caution by the Superintendent of Public Instruction when the district projects a current year ending fund balance less than or equal to 2 percent of current year projected revenue or a deficit greater than 2 percent in the next fiscal year.

MEVSD has been functioning with fluctuating, although primarily negative, General Fund balances² as well as a declining cash balance over the last three fiscal years. In addition, MEVSD was projected to end fiscal year (FY) 2008-09 with a negative General Fund balance of approximately \$2.4 million. MEVSD's FY 2007-08 October five-year forecast showed a continuation of these trends culminating in a FY 2011-12 General Fund deficit of approximately \$19.6 million.

¹ See the **executive summary** for a list of the peers.

² General Fund results of operations balances.

On March 27, 2008, MEVSD was placed in fiscal caution due to the possibility of ending FY 2008-09 with a deficit as well as the potential for deficits in future years. In accordance with ORC § 3316.03 1(C), MEVSD was required to submit a fiscal caution proposal to ODE by May 27, 2008 outlining the District's plan to address the projected deficit for FY 2008-09.

MEVSD prepared a fiscal caution financial recovery proposal which outlined approximately \$2.5 million in cost reductions for FY 2008-09. When applied to MEVSD's FY 2007-08 May five-year forecast, these reductions are projected to help the District to maintain positive General Fund balances (excluding encumbrances) through FY 2009-10, followed by negative balances in FY 2010-11 and FY 2011-12 of approximately \$1.1 million and \$2.2 million respectively. In FY 2011-12, the District is projected to have a negative General Fund cash balance of approximately \$200,000. Although the updated forecast does not include any new levy revenues, the assumptions note the District will need to place a levy on the November 2008 ballot. For further discussion of MEVSD's financial recovery plan (see **noteworthy accomplishments** in the **executive summary**).

For FY 2007-08, MEVSD has a voted General Fund millage of 65.00 mills and an effective millage of 31.15 mills. MEVSD's property taxes were estimated to generate approximately \$27.6 million in local revenue during FY 2007-08. Its last levy attempt, in March 2008, resulted in the failure of the proposed issue with approximately 52.2 percent voting against and 48.8 percent voting for the issue.

Treasurer's Office Operations

MEVSD's Treasurer has been at the District since November 2006, but has substantial experience as a school Treasurer. The Treasurer's Office consists of seven positions including the Treasurer, Assistant to the Treasurer, Administrative Assistant to the Treasurer, two payroll clerks, and two account clerks. MEVSD's Treasurer's Office employees are all highly experienced in their respective functions.

The Assistant to the Treasurer and Administrative Assistant to the Treasurer are responsible for accounting duties, as well as working with and assisting the Treasurer in development of Treasurer's Office reports and forms (e.g., presentations, financial reports, and meeting records).

The payroll clerks work in concert to review, process, and record the District's bi-monthly payroll. MEVSD has always had two payroll clerks and the payroll clerks can serve as mutual backups in the event of illness or extended absence. MEVSD's payroll, leave use and approval, and time tracking processes are all highly automated or undergoing upgrades to current levels of automation (see **noteworthy accomplishments** in the **executive summary**).

The account clerks are responsible for different aspects of the District's overall purchasing. One account clerk is responsible for all Central Office and departmental purchasing while the other is

responsible for all building-level purchasing. Overall, MEVSD's purchasing process is highly automated, using online requisition submission, approval, and review.

Although MEVSD does not have a formal Treasurer's Office cross-training program, the District's duplicative staffing within the Office has created position redundancies. As a result, MEVSD has two trained employees who are able to cover each Treasurer's Office function in the case of long-term absences.

Financial Committees

MEVSD is required by ORC § 3313.174 to have a Business Advisory Committee (the BAC or the Committee) as a committee of the Board. MEVSD's BAC is comprised of community members and serves in an advisory role to the Board, consistent with ORC requirements.

MEVSD also has a Finance Committee which consists of the Treasurer, Superintendent, and two Board members. However, the Finance Committee is not a Board Committee and as such is not required to maintain meeting minutes. The Treasurer prepares agendas for Finance Committee meetings and incorporates Finance Committee information into the monthly financial information presented to the Board. Furthermore, MEVSD's Board meeting proceedings are available to the public through the documented meeting minutes as well as streaming videos on the District's web site (see **noteworthy accomplishments** in the **executive summary**).

MEVSD's Finance Committee would serve as a de-facto audit committee in the event the District needed to address financial audit and management letter citations. However, MEVSD's FY 2006-07 financial audit contained no citations and no management letter was issued.

Financial Condition

Table 2-1 presents historical and projected revenues and expenditures, as approved by the Board on May 15, 2008 and submitted to ODE.

Table 2-1: FY 2007-08 May Five-Year Forecast (in 000s)

	Actual			Forecasted				
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenues:								
General Property (Real Estate)	\$25,439	\$26,315	\$27,427	\$27,174	\$27,325	\$27,415	\$27,463	\$27,538
Tangible Personal Property Tax	\$2,772	\$2,937	\$2,283	\$1,929	\$1,042	\$575	\$110	\$110
Unrestricted Grants-in-Aid	\$16,609	\$17,695	\$17,420	\$17,321	\$17,400	\$17,400	\$17,400	\$17,400
Restricted Grants-in-Aid	\$74	\$100	\$108	\$56	\$55	\$55	\$55	\$55
Property Tax Allocation	\$3,478	\$3,376	\$3,952	\$4,591	\$5,450	\$5,920	\$6,400	\$6,400
All Other Operating Revenue	\$561	\$767	\$1,512	\$1,843	\$1,850	\$1,850	\$1,850	\$1,850
Total Revenue	\$48,933	\$51,190	\$52,703	\$52,915	\$53,122	\$53,215	\$53,278	\$53,353
Other Financing Sources:								
Advances-In	\$23	\$30	\$21	\$0	\$0	\$0	\$0	\$0
All Other Financial Sources	\$80	\$63	\$10	\$118	\$0	\$0	\$0	\$0
Total Other Financing Sources	\$103	\$93	\$30	\$118	\$0	\$0	\$0	\$0
Total Revenues and Other Financing Sources	\$49,036	\$51,283	\$52,733	\$53,033	\$53,122	\$53,215	\$53,278	\$53,353
Expenditures:								
Personal Services	\$30,634	\$30,488	\$29,259	\$30,444	\$29,830	\$30,280	\$30,730	\$31,180
Employees' Retirement/Insurance Benefits (ERIB)	\$9,555	\$10,425	\$11,195	\$10,554	\$10,240	\$10,465	\$10,690	\$10,915
Purchased Services	\$8,693	\$8,150	\$8,552	\$9,506	\$9,350	\$9,800	\$10,300	\$10,800
Supplies and Materials	\$2,348	\$2,065	\$1,274	\$934	\$1,030	\$1,080	\$1,135	\$1,120
Capital Outlay	\$605	\$328	\$51	\$136	\$250	\$250	\$250	\$250
Debt Service ¹	\$160	\$160	\$159	\$160	\$160	\$160	\$159	\$160
Other Objects	\$721	\$697	\$768	\$961	\$1,000	\$1,050	\$1,100	\$1,150
Total Expenditures	\$52,716	\$52,314	\$51,259	\$52,695	\$51,860	\$53,085	\$54,365	\$55,575
Other Financing Uses:								
Operational Transfers - Out	\$0	\$835	\$222	\$0	\$0	\$0	\$0	\$0
Advances - Out	\$30	\$21	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$30	\$855	\$222	\$0	\$0	\$0	\$0	\$0
Total Expenditure and Other Financing Uses	\$52,745	\$53,169	\$51,482	\$52,695	\$51,860	\$53,085	\$54,365	\$55,575
Result of Operations (Net)	(\$3,709)	(\$1,887)	\$1,251	\$338	\$1,262	\$130	(\$1,087)	(\$2,222)
Beginning Cash Balance	\$5,723	\$2,014	\$127	\$1,378	\$1,716	\$2,978	\$3,109	\$2,021
Ending Cash Balance	\$2,014	\$127	\$1,378	\$1,716	\$2,978	\$3,109	\$2,021	(\$201)
Outstanding Encumbrances	\$1,625	\$0	\$887	\$0	\$0	\$0	\$0	\$0
Total Reservations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Fund Balance June 30 for Certification of Appropriations	\$388	\$127	\$491	\$1,716	\$2,978	\$3,109	\$2,021	(\$201)
Fund Balance June 30 for Certification of Contracts, Salary Schedule, Other Obligations	\$388	\$127	\$491	\$1,716	\$2,978	\$3,109	\$2,021	(\$201)
Unreserved Fund Balance June 30	\$388	\$127	\$491	\$1,716	\$2,978	\$3,109	\$2,021	(\$201)

Source: MEVSD

Note: Totals may vary due to rounding.

¹ Debt Service includes: Principal – H.B. 264 loans and interest and fiscal charges.

By its nature, forecasting requires estimates of future events. As a result, differences between projected and actual results are common because circumstances and conditions assumed in

projections frequently do not occur as expected and are based on information existing at the time the projections are prepared.

MEVSD's updated FY 2007-08 May five-year forecast was reviewed for compliance with State requirements as well as for reasonableness in historical and projected revenues and expenditures. The May five-year forecast and assumptions were found to accurately reflect the District's reductions as represented in the fiscal caution financial recovery proposal. In addition, the May forecast was reviewed for consistency with ODE's two-year forecast analysis and was determined to be reasonably accurate.

Table 2-2 shows MEVSD's FY 2006-07 General Fund revenues per pupil in comparison to the peer average. MEVSD ended FY 2007-08 prior to the completion of the audit. Therefore, **Table 2-2** also shows MEVSD's FY 2007-08 figures.

Table 2-2: Revenue Comparison

	MEVSD FY 2006-07	MEVSD FY 2007-08	Peer Avg. FY 2006-07	FY 2006-07 Difference	FY 2006-07 % Difference
Pupils ¹	6,106	6,009	4,042	2,064	51.1%
Property & Income Tax	\$4,879.40	\$4,870.03	\$4,237.05	\$642.34	15.2%
Intergovernmental Revenues	\$3,520.38	\$3,726.14	\$3,293.60	\$226.78	6.9%
Other Revenues	\$236.77	\$301.83	\$332.49	(\$95.72)	(28.8%)
Total Revenue	\$8,636.54	\$8,898.00	\$7,863.14	\$773.40	9.8%

Source: MEVSD and peers

Note 1: Totals and percentages may vary due to rounding.

Note 2: MEVSD's FY 2007-08 financial information is un-audited and could be subject to revision. Updated peer information was not available at the time of reporting and, as such, no comparison for MEVSD's FY 2007-08 financial information could be completed.

¹ For the purposes of this section of the performance audit, per pupil is based on MEVSD's formula average daily membership (ADM) as calculated by ODE and published on the District's FY 2006-07 final SF3 report.

Table 2-2 shows that in FY 2006-07, MEVSD's General Fund revenue structure was similar to that of the peers. In addition, its total General Fund revenues per pupil were higher than the peer average (see **Table 2-3**).

MEVSD's allocation of resources between the various functions reflects an important aspect of the budgeting process. Given the limited resources available, functions must be continually evaluated and prioritized.

Table 2-3 shows MEVSD's FY 2006-07 General Fund expenditures per pupil as compared to the peer average. The District completed FY 2007-08 during the course of the audit. Therefore, **Table 2-3** also shows MEVSD's FY 2007-08 expenditures. During the course of the audit

MEVSD also made reductions in expenditures which are reflected in the May 2008 five-year forecast (see **Table 2-1**). Areas of expenditure which were germane to the analysis are further discussed below the table.

Table 2-3: Expenditure Comparison

	MEVSD FY 2006-07	MEVSD FY 2007-08	Peer Avg. FY 2006-07	FY 2006-07 Difference	FY 2006-07 % Difference
Pupils ¹	6,106	6,009	4,042	2,064	51.1%
Personal Services	\$4,792.04	\$5,049.89	\$4,667.67	\$124.37	2.7%
ERIB	\$1,833.52	\$1,723.21	\$1,642.12	\$191.40	11.7%
Purchased Services	\$1,400.65	\$1,541.01	\$733.12	\$667.53	91.1%
Supplies and Textbooks	\$208.62	\$173.66	\$249.76	(\$41.14)	(16.5%)
Capital Outlays	\$8.37	\$23.59	\$139.78	(\$131.41)	(94.0%)
Debt Service	\$26.17	\$26.59	\$4.03	\$22.14	548.8%
Miscellaneous	\$125.79	\$138.52	\$169.86	(\$44.07)	(25.9%)
Other Financing Uses	\$36.43	\$0.00	\$103.48	(\$67.05)	(64.8%)
Total Expenditures	\$8,431.59	\$8,676.46	\$7,709.82	\$721.77	9.4%

Source: MEVSD and peers

Note 1: Totals and percentages may vary due to rounding.

Note 2: MEVSD's FY 2007-08 financial information is un-audited and could be subject to revision. Updated peer information was not available and, as such, no comparison for MEVSD's FY 2007-08 financial information could be completed.

¹ For the purposes of this section of the performance audit, per pupil is based on MEVSD's formula average daily membership (ADM) as calculated by ODE and published on the District's FY 2006-07 final SF3 report.

Table 2-3 shows that in FY 2006-07, MEVSD's total General Fund expenditures per pupil were higher than the peer average and the District's FY 2007-08 total expenditures were higher relative to FY 2006-07. Personal services, ERIB, purchased services, and debt service were all higher than the peer average for FY 2006-07 and, with the exception of ERIB, MEVSD's expenditures per pupil increased in each of these categories for FY 2007-08.

In FY 2006-07 MEVSD's personal services expenditures per pupil were only marginally higher than the peer average. Although expenditures per pupil for this category were higher in FY 2007-08, the District made significant staffing reductions as a part of its fiscal caution financial recovery plan (see **noteworthy accomplishments in executive summary**).

MEVSD's FY 2006-07 ERIB expenditures were primarily driven by the District's classified employee retirement and insurance, both of which were examined in **human resources** and determined to have elements that are costly to the District. For example, during FY 2007-08 MEVSD offered an additional retirement benefit to 28 District administrators including classified supervisors (see **R3.3** in **human resources** for further discussion). The District's

higher classified employee insurance is primarily driven by its negotiated agreement. The agreement requires the District to provide all classified employees working 20 hours or more per week with full health insurance coverage. Although these employees are required to pay the same employee share of the premiums as full-time employees, the agreement not to pro-rate insurance coverage for part-time classified employees is costly to the District (see **human resources** for further discussion).

MEVSD's FY 2006-07 purchased service expenditures were primarily driven by its property services, electricity, tuition, and pupil transportation expenditures. Tuition was the largest share of FY 2006-07 purchased services; however, the District does not have direct control over the level of student tuition expenditures. If tuition is excluded from the comparison for both the District and the peers, purchased services expenditures were still higher by about \$352 per pupil.

The District's FY 2006-07 property service expenditures were about \$123 per pupil higher than the peer average. Property service expenditures are defined as services purchased to operate, repair, maintain, insure, and rent property and/or equipment owned and/or used by the district. These services are performed by persons other than school district employees (see **Table 2-5** for further analysis of MEVSD's property services expenditures).

FY 2006-07 pupil transportation and electricity expenditures comprised the majority of the remaining purchased services expenditures. MEVSD contracts for transportation services with Petermann Ltd. (see **transportation**). Also, MEVSD does not have a comprehensive energy conservation program. For further discussion of the District's electricity expenditures and energy conservation measures (see **facilities**).

Table 2-4 compares MEVSD's governmental expenditures per pupil and as a percentage of total expenditures to the peer average. **Table 2-4** was also updated to show FY 2007-08 expenditures and reflects the District-initiated reductions that are also shown in its May 2008 forecast.

Table 2-4: Governmental Expenditures Comparison

	MEVSD FY 2006-07		MEVSD FY 2007-08		Peer Avg. FY 2006-07		FY 2006-07 Difference	
Pupils¹	6,106		6,009		4,042		2,064	
USAS Function Classification	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$	%
Instructional Expenditures:	\$5,004	57.1%	\$5,203	51.7%	\$4,860	59.0%	\$144	3.0%
Regular Instruction	\$3,854	44.0%	\$4,029	40.1%	\$3,850	46.8%	\$4	0.1%
Special Instruction	\$1,107	12.6%	\$997	9.9%	\$758	9.1%	\$349	46.0%
Vocational Education	\$43	0.5%	\$44	0.4%	\$151	1.8%	(\$108)	(71.5%)
Other Instruction	\$0	0.0%	\$131	1.3%	\$100	1.2%	(\$100)	(100.0%)
Support Service Expenditures:	\$3,490	39.8%	\$3,649	36.3%	\$3,068	37.2%	\$422	13.8%
Pupil Support Services	\$423	4.8%	\$401	4.0%	\$449	5.4%	(\$26)	(5.8)
Instructional Support Services	\$330	3.8%	\$476	4.7%	\$326	4.0%	\$4	1.2%
Board of Education	\$9	0.1%	\$17	0.2%	\$30	0.4%	(\$21)	(70.0%)
Administration	\$538	6.1%	\$532	5.3%	\$624	7.6%	(\$86)	(13.8%)
Fiscal Services	\$185	2.1%	\$227	2.3%	\$177	2.2%	\$8	4.5%
Business Services	\$98	1.1%	\$103	1.0%	\$39	0.5%	\$59	151.3%
Plant Operation & Maintenance	\$889	10.1%	\$1,023	10.2%	\$875	10.6%	\$14	1.6%
Pupil Transportation	\$856	9.8%	\$729	7.2%	\$465	5.7%	\$391	84.1%
Central Support Services	\$163	1.9%	\$141	1.4%	\$84	1.0%	\$79	94.0%
Non-Instructional Services Expenditures	\$87	1.0%	\$75	0.7%	\$57	0.7%	\$30	52.6%
Extracurricular Activities Expenditures	\$179	2.0%	\$193	1.9%	\$256	3.1%	(\$77)	(30.1%)
Total Governmental Fund Operational Expenditures	\$8,760	100.0%	\$9,120	100.0%	\$8,240	100.0%	\$520	6.3%

Source: MEVSD and peers

Note 1: Totals and percentages may vary due to rounding.

Note 2: MEVSD's FY 2007-08 financial information is un-audited and could be subject to revision. Updated peer information was not available and, as such, no comparison for MEVSD's FY 2007-08 financial information could be completed.

¹ For the purposes of this section of the performance audit, per pupil is based on MEVSD's formula ADM as calculated by ODE and published on the District's FY 2006-07 final SF3 report.

Table 2-4 shows that in FY 2006-07 MEVSD's total governmental expenditures per pupil were higher than the peer average and the District's FY 2007-08 total governmental expenditures were higher relative to FY 2006-07. In FY 2006-07 instructional, support services, and non-instructional services were all higher than the peer average and, with the exception of non-instructional expenditures, governmental expenditures per pupil increased in each of these categories for FY 2007-08.

Within instructional expenditures, MEVSD was higher than the peer average in regular and special instruction; however, regular instruction expenditures per pupil were not significantly

higher than the peer average. Special instruction expenditures are for instructional activities designed primarily to deal with pupil exceptionalities in areas of pre-primary, elementary, and secondary services for the academically gifted; handicapped; culturally different; disadvantaged; and other special. While MEVSD's expenditures for special instruction salaries, retirement, and insurance are driven by the special instruction staffing level, the District's tuition and excess cost expenditures are a function of special instruction program choices. See **human resources** for a further analysis of the special instruction program.

Within support service expenditures, MEVSD was significantly higher than the peer average for pupil transportation. The expenditures for transportation encompass transportation for school activities and between home and school, as provided by State law. Although MEVSD contracts with Petermann for pupil transportation services, the District's Transportation Department employees, aside from the Transportation Director and Assistant Director, are all District employees and costs in this area reflect salaries and benefit expenses. Pupil transportation expenditures are driven by the number of bus routes and buses. For further discussion of MEVSD's transportation routing efficiency and contract management see **R5.1** and **R5.3**, respectively, in **transportation**.

Table 2-5 compares General Fund discretionary expenditures per pupil and as a percentage of total expenditures to the peer average. **Table 2-5** includes the FY 2007-08 expenditures and reductions included in the District's five-year forecast. Discretionary expenditures are those items not representing fixed costs or governed by negotiated agreements, giving the District a greater level of control in the short-term.

Table 2-5: Discretionary Expenditures Comparison

	MEVSD FY 2006-07		MEVSD FY 2007-08		Peer Avg. FY 2006-07		FY 2007-07 Difference	
Pupils ¹	6,106		6,009		4,042		2,064	
Discretionary Expenditure	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$	%
Prof. & Technical Service	\$92.02	1.1%	\$72.06	0.8%	\$118.86	1.5%	(\$26.84)	(22.6%)
Property Services	\$261.92	3.1%	\$363.86	4.2%	\$141.74	1.8%	\$120.18	84.8%
Pupil Transportations	\$243.24	2.9%	\$206.94	2.4%	\$6.50	0.1%	\$236.75	3644.3%
General Supplies	\$74.28	0.9%	\$44.46	0.5%	\$95.53	1.2%	(\$21.24)	(22.2%)
Textbooks/Reference Materials	\$24.31	0.3%	\$7.71	0.1%	\$40.35	0.5%	(\$16.05)	(39.8%)
Plant Maintenance & Repair	\$53.40	0.6%	\$51.73	0.6%	\$44.68	0.6%	\$8.72	19.5%
Fleet Maintenance & Repair	\$54.10	0.6%	\$63.39	0.7%	\$68.18	0.9%	(\$14.08)	(20.7%)
Land, Building & Improvements	\$0.00	0.0%	\$0.00	0.0%	\$48.38	0.6%	(\$48.38)	(100.0%)
Equipment	\$8.37	0.1%	\$23.59	0.2%	\$67.80	0.8%	(\$59.43)	(87.7%)
Dues & Fees	\$117.86	1.4%	\$131.37	1.5%	\$159.06	2.1%	(\$41.20)	(25.9%)
Total	\$973.52	11.5%	\$1,007.58	11.6%	\$877.76	11.3%	\$95.77	10.9%

Source: MEVSD and peers

Note 1: Totals and percentages may vary due to rounding.

Note 2: MEVSD's FY 2007-08 financial information is un-audited and could be subject to revision. Updated peer information was not available and, as such, no comparison for MEVSD's FY 2007-08 financial information could be completed.

¹ For the purposes of this section of the performance audit, per pupil is based on MEVSD's formula ADM as calculated by ODE and published on the District's FY 2006-07 final SF3 report.

Table 2-5 shows that in FY 2006-07, MEVSD's discretionary expenditures accounted for a slightly higher percentage of total operating expenditures when compared to the peer average. In addition, FY 2007-08 discretionary expenditures as a percentage of total expenditures increased relative to FY 2006-07. Discretionary expenditure categories for which the District was significantly higher than the peer average in FY 2006-07 included property services, pupil transportation, and plant maintenance and repair. Further information on these expenditure categories within purchased services is as follows:

- Property Services** – This expenditure category is for services purchased from outside the district to operate, repair, maintain, insure, and rent property and/or equipment owned and/or used by the district. In FY 2006-07 property service expenditures were primarily driven by garbage services, repair and maintenance services, property insurance, rentals, and other property services (building security). During the course of the audit the District made significant property service reductions as a part of its fiscal caution financial recovery plan (see **noteworthy accomplishments** in **executive summary**).

- **Pupil Transportation** – As discussed in **Table 2-4**, pupil transportation expenditures are driven by the number of bus routes and buses. See **R5.1** and **R5.3**, respectively, in **transportation**.
- **Plant Maintenance and Repair** – This expenditure category is for those consumable items used to operate, maintain, and/or repair school district property, buildings, and equipment. During the course of the audit the District made significant reductions in total discretionary expenditures as a part of its fiscal caution financial recovery plan (see **noteworthy accomplishments in executive summary**).

Audit Objectives for the Financial Systems Section

The following is a list of the questions used to guide the evaluation of financial systems functions at MEVSD:

- What has been the District’s financial history and does the District have policies and procedures to ensure effective and efficient management?
- Does the five-year forecast reasonably and logically project the future financial position of the District?
- Could the District’s web site be enhanced to incorporate recommended communications and reporting practices?
- Has the District developed a strategic plan that links educational and operational plans and incorporates recommended practices?
- How does the District’s revenue and expenditure information compare with the peers?
- Has the District established policies governing ethical conduct?
- Could the District further automate the payroll process using existing or limited additional resources?

Recommendations

R2.1 MEVSD should develop an updated District-wide strategic plan which outlines the strategic vision for all operational and educational programs. In preparing the plan, MEVSD should include detailed goals, objectives, benchmarks, timeframes, performance measures, cost estimates, and funding sources. In addition, MEVSD should link the strategic plan to the annual budget (see R2.4), the five-year forecast (see R2.6), the comprehensive continuous improvement plan (CCIP), and the facilities master plan (see R4.1). This approach shifts the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs, and ultimately to the accomplishment of goals and objectives stated in the District's strategic plan.

During the course of the audit, the Superintendent began developing and identifying community resources which could assist in developing an updated strategic plan.³ The Superintendent indicated that, when finished, the plan will:

- **Reflect stakeholder priorities;**
- **Contain measurable benchmarks and goals;**
- **Provide a clear link between the programs within the plan and funding source; and**
- **Allow the District to track and report progress on an ongoing basis.**

On its web site, MEVSD has a link to a District-wide strategic plan. The web site indicates that the strategic plan was created in 2001, evaluated in 2003, and updated in 2004. The strategic plan was developed by a Strategic Planning Committee which consisted of 31 community and District representatives. In addition to a mission statement, statement of beliefs, list of strategic objectives, and parameters within which the District planned to operate, the strategic plan also mapped out strategies and action plans for several key areas of District operations. These areas of operation included facilities, technology, success for all, vital relationships and effective communications, exemplary status, and character and climate (this was the only area for which an action plan was omitted). However, according to the Treasurer, the strategic plan is no longer applicable to District operations given its financial condition.

Recommended Practice on the Establishment of Strategic Plans (GFOA, 2005) recommends that all governments develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between spending and goals. The focus of the strategic plan should be on aligning organizational

³ MEVSD refers to its strategic plan as a continuous improvement plan. This differs from the ODE-required comprehensive continuous improvement plan (CCIP).

resources to bridge the gap between present conditions and the envisioned future. An important complement to the strategic planning process is the preparation of an accompanying long-term financial plan (see **R2.6** for further discussion of the five-year financial forecast). In preparing the strategic plan, GFOA recommends the development of measurable objectives and inclusion of performance measures. Objectives should be expressed as quantities or at least as verifiable statements, and should ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and provide an important link between the goals in the strategic plan and the activities funded in the budget.

In the absence of an up-to-date and comprehensive strategic plan to tie all operational and program needs together, including budgetary and educational goals, MEVSD may not be able to link District actions with program outcomes. As a result, it might be at a greater risk of under- or over-funding particular programs relative to other District needs. A single District-wide planning document could also increase the efficiency of MEVSD's expenditures through tighter budgetary controls and a longer-term focus. Incorporation of performance benchmarks would also help ensure the District-wide strategic plan serves as a tool for continuous program and operational improvement. Continuous planned improvement of the District's educational and business operations will serve as a crucial step in the District's efforts to regain and maintain fiscal stability.

R2.2 MEVSD should improve its internal controls over several financial areas by expanding and, when necessary, updating existing policies and procedures. Furthermore, the District should evaluate its policies and procedures on an annual basis to ensure that they are in line with its management philosophy and goals and appropriately address identified risks and weaknesses. Proper internal control procedures will help to ensure that District resources are protected and personnel comply with formalized processes.

During the course of the audit, several assessments noted weaknesses in MEVSD's policies and procedures over fiscal management. Specifically, the District does not have comprehensive financial policies; a formalized collaborative budgeting process; a District-wide purchasing manual, a forecasting policy, or an ethics policy that fully meets Ohio Ethics Commission (OEC) recommendations. These issues are addressed in detail in **R2.3** through **R2.7**.

According to the *Auditor of State's Best Practices* (AOS, 2006), a well-designed internal control structure helps to reduce improper activities. Designing and implementing internal controls is a continuous process which requires risk evaluation; the design, testing and revision of procedures; and formal monitoring. Also, as conditions change, control procedures may become outdated and inadequate. Management must therefore

anticipate that certain procedures will become obsolete and modify internal controls systems in response to these changes.

Well-documented and maintained policies and procedures enhance both accountability and consistency among staff and management. MEVSD could improve its internal controls through more comprehensive and up-to-date policies and procedures. These policies and procedures could be developed internally, using the examples given in **R2.3** through **R2.7**, at little or no additional cost to the District.

R2.3 MEVSD should supplement existing financial policies to include those recommended by *Best Practices in Public Budgeting* (GFOA, 2000). These policies would help the District promote long-term financial flexibility and stability by identifying the appropriate parameters for financial activities outside of the District's day-to-day operations. Improved policy guidance would help MEVSD plan more effectively and avoid making major cost reductions as a result of a temporary downturn in the economy or the failure to immediately pass a levy.

The Board of Education (the Board) has developed financial policies to help guide the District's financial decision making. Despite having comprehensive policies for financial management, the District is lacking some policies recommended by the Government Finance Officers Association (GFOA). For example, *Best Practices in Public Budgeting* (GFOA, 2000), recommends developing financial policies in the following areas:

- **Debt issuance and management** – The policies should include: purposes for which debt may be issued; matching of the useful life of an asset with the maturity of the debt; limitations on the amount of outstanding debt; types of permissible debt; structural features, including payment of debt service and any limitations resulting from legal provisions or financial constraints; refunding of debt; and investment of bond proceeds. Legal or statutory limitations on debt issuance should be incorporated into debt policies.
- **Debt level and capacity** – A government should develop distinct policies for general obligation debt, debt supported by revenues of government enterprises, and other types of debt such as special assessment bonds, tax increment financing bonds, short-term debt, variable-rate debt, and leases. Limitations on outstanding debt and maximum debt service may be expressed in dollar amounts or as ratios, such as debt per capita.
- **One-time revenues** – This policy should limit the use of one-time revenues for ongoing expenditures. By definition, one-time revenues cannot be relied upon in future budgets. A policy on the use of one-time revenues should provide guidance to minimize disruptive effects on services due to non-recurrence for these sources.

One-time revenues and allowable uses for those revenues should be explicitly defined within the policy.

- **Unpredictable revenues** – For each major unpredictable revenue source, a government should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, a government should identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. A government should decide, in advance, on a set of tentative actions to be taken if one or more of these sources generates revenues substantially higher or lower than projected.
- **Contingency planning** - This policy should identify types of emergencies or unexpected events and the way in which these situations will be handled from a financial management perspective. It should consider operational and management impacts.

Collectively, these policies would help the District promote long-term financial flexibility and better withstand short-term declines in revenues due to a downturn in the economy or a levy failure.

R2.4 MEVSD should enhance its budget development processes by ensuring that it retains its collaborative budgeting process and that all future budgets are tied explicitly to the District-wide strategic plan (see R2.1). The inclusion of key stakeholders in the budget development process will help to ensure that the budget reflects all District priorities and effectively supports the goals contained in the strategic plan.

MEVSD’s budget policies are designed to ensure the District maintains compliance with State budget requirements, including budget timelines, review, approval, adoption, and budget modifications. In addition, the policy on budget planning states that “Budget planning for the district will be an integral part of program planning so that the annual operating budget may effectively express and implement all programs and activities of the school district. Budget planning will be a year-round process involving broad participation by administrators, teachers, and other personal throughout the school district. In addition, budget planning may invite input from the District’s Business Advisory Council, Curriculum Advisory Board and members of the community.”

According to the Treasurer, MEVSD’s building and departmental budgets for FY 2007-08 were prepared with proposal input from the respective administrators. These proposals were then reviewed by the Superintendent, Business Manager, and Treasurer and, if warranted, the budgets were adjusted. However, the Treasurer noted that budgets will be

prepared centrally by the Superintendent, Business Office Administrator, and Treasurer, for FY 2008-09. The Treasurer indicated that MEVSD does not have much in the way of discretionary funding available and that what little there is will have to be sparingly allocated.

Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achievement of previously developed goals and objectives as defined by the government-wide strategic plan. GFOA indicates that governments should provide opportunities in the budget process for obtaining stakeholder input. This helps ensure that stakeholder priorities are identified and enhances support for the approved budget.

Developing the budget based on goals and objectives outlined in the strategic plan (see **R2.1**) will help focus the District's limited resources, which subsequently should allow for more efficient use of those funds. MEVSD's practice of collaborative budget development should not be abandoned in light of its financial condition because doing so could erode support for the strategic plan, the budget, and the priorities outlined therein. Continuing the District's procedure of including key stakeholders in the budgeting process would ensure that the budget incorporates each administrator's knowledge of building and department needs while helping each administrator to more fully understand the District's financial situation.

R2.5 MEVSD should formalize and disseminate a District-wide purchasing manual. The purchasing manual should encompass all District purchasing policies and procedures including guidance on competitive bidding expectations. A readily available purchasing manual would serve as a comprehensive guide for all building and department purchases.

MEVSD's purchasing policies encompass the Board's official rules on purchasing authority, petty cash, competitive bidding, local and cooperative purchasing, and purchasing and payment procedures. The only formal purchasing policies are the Board policies and these are available at all buildings and in all District departments. In addition, one of the Treasurer's Office account clerks visits the buildings for half a day every Tuesday and Thursday to help with purchases and to ensure that all staff are entering, approving, and submitting purchases in a manner consistent with District policies and expectations. The FY 2006-07 financial audit noted no issues regarding the District's purchasing.

MEVSD is a member of the Unified Purchasing Cooperative (UPC). UPC asserts that "by aggregating the requirements of its members, each member's purchasing power increases

and as a result, UPC is able to obtain the best prices for quality products and services.” The Business Office Administrator indicated that products purchased through UPC were obtained at a competitive rate.

According to the Business Office Administrator, all requisitions (unless they are through pre-approved vendors like UPC) are typically submitted to the Business Office with price quotes. Usually two quotes are obtained but there have been instances where a specialized piece of equipment had to be purchased from a particular vendor because that vendor was the only manufacturer. After initial approval, bids are retained at the Business Office and are not sent to the Treasurer’s Office. MEVSD’s accounts clerks confirmed that quotations do not accompany approved requisitions sent to the Treasurer’s Office, though they were aware of a couple purchases for which quotes were obtained.

Financial Accountability System Resource Guide (Texas Education Agency (TEA), 2004) recommends that every school district should have a written manual describing its purchasing policies and procedures. In general, a good purchasing manual establishes rules for making district purchases. It provides guidance to district employees at the building and departmental levels in requisitioning purchases and often is used to acquaint vendors and suppliers with the district’s policies and procedures. Internally, the manual helps in training school district personnel in purchasing policy and procedures. Finally, it promotes the consistent application of purchasing procedures throughout the district. Such a manual can either stand alone or be made a part of a financial and accounting manual.

TEA notes that a typical purchasing manual will address the following items:

- Purchasing goals and objectives;
- Statutes, regulations, and board policies applicable to purchasing;
- Purchasing authority;
- Requisition and purchase order processing;
- Competitive procurement requirements and procedures;
- Vendor selection and relations;
- Receiving;
- Distribution; and
- Disposal of obsolete and surplus property.

Although MEVSD lacks a purchasing manual, many of the abovementioned policies are present in the policies governing fiscal management. Items which do not appear to be covered in the Board policies include receiving and distribution.

Although no purchasing problems were noted in the FY 2006-07 financial audit, the development, approval, and distribution of a District-wide purchasing handbook would

help the Board, Treasurer, and Superintendent to reaffirm the District's official position on all purchasing matters.

- R2.6 MEVSD should develop and approve a policy on financial forecast development, review and approval. The policy should establish a collaborative approach to forecasting in which the forecast is prepared by the Treasurer with major input from the Superintendent and Director of HR with additional input from building and department administrators. In addition, the policy should affirm that the forecast is to reflect the District's goals and priorities as stated in the strategic plan (see R2.1). A more collaborative approach to forecasting will ultimately improve its accuracy through incorporation of multi-faceted technical expertise. Finally, a collaborative process helps to ensure that all District administrators concur with the resulting forecast.**

MEVSD does not have a Board policy specifically related to preparation and submission of the five-year forecast. However, the Treasurer noted that the forecast submission is governed by State and ODE requirements.

While the Treasurer prepares and submits the final forecast document to ODE, the administrative team provides input on program changes or services that will affect the forecast. The forecast is also reviewed by the Board and the Finance Committee prior to submission to ODE. During the preparation of the FY 2007-08 October forecast MEVSD held community meetings to discuss services and potential changes (e.g., transportation).

Use of Cash Flow Forecasts in Operations (GFOA, 2008) notes that a government's forecast preparation process should be organization-wide and as such, all operating departments should be involved in developing reasonable expectations of planned expenditures. Collaborative forecasting will allow for more accurate measurement and prioritization, relative to governmental goals, of likely resource inflows and outflows.

Although MEVSD's Treasurer intends to prepare forecasts in a collaborative manner with input from all administrators, the District does not have a policy affirming this approach. MEVSD may find it difficult to forecast in a collaborative manner; however, this process enables the Treasurer, Superintendent, and Director of HR to present unique perspectives regarding revenues and expenditures based on their roles within the District. Furthermore, collaborative forecasting provides a greater assurance that the District's forecast accurately reflects planned programmatic and operational efforts.

- R2.7 MEVSD should update the existing Board policies to include a District-wide ethics policy based on the Ohio Ethics Commission's (OEC) model ethics policy for local governments. This policy should hold all District representatives and employees to a consistent standard of ethical conduct in compliance with State law. An updated,**

ethics policy would tie together the District’s ethics and conduct policies as well as supplement the existing policies with important elements recommended by OEC.

MEVSD has Board policies regarding Board ethics, certificated staff ethics, and District-wide employee conduct. However, the Board policies lack a District-wide ethics policy which includes all the elements recommended by OEC.

OEC states the underlying principle for all functions of the ethics law is to uphold straight-forward standards of conduct that maintain integrity and propriety in connection with decisions and policy involving public funds. Particularly, the law prohibits conflicts of interest or personal gain in making and implementing public decisions. Additionally, OEC offers a model ethics policy for local government agencies. The model ethics policy lists a number of general standards for ethical conduct as well as ethics requirements and penalties associated with compliance failure.

Specifically, MEVSD’s policies lack formal language recommended by OEC, including that “no employee shall:

- Solicit or accept employment from anyone doing business with the [Agency], unless the official or employee completely withdraws from [Agency] activity regarding the party offering employment, and the [Agency] approves the withdrawal;
- During public service, and for one year after leaving public service, represent any person, in any fashion, before any public agency, with respect to a matter in which the official or employee personally participated while serving with the [Agency];
- Use or disclose confidential information protected by law, unless appropriately authorized; and
- Use, or authorize the use of, his or her title, the name [Agency], or [the Agency’s acronym], or the [Agency]’s logo in a manner that suggests impropriety, favoritism, or bias by the [Agency] or the official or employee.”

In addition, MEVSD’s policies lack specific definitions of “anything of value” and “anyone doing business with the [Agency].” These definitions are included in the OEC model ethics policy and are important for ensuring that all employees have a clear understanding of all ethical standards.

Without a comprehensive policy that holds all District representatives and employees accountable to a consistent ethical standard, MEVSD may be at risk for individual ethical misconduct and a loss of the public’s trust.

R2.8 MEVSD should revise its projections for personal services for FY 2009-10, FY 2010-11, and FY 2011-12 to incorporate conservative negotiated wage increases (NWIs). MEVSD has forecast personal services to account for modest step increases only. By projecting no NWIs during the forecast period, MEVSD is presenting an overly optimistic scenario which is not likely to account for all future personal service obligations.

In addition, MEVSD should revise and clarify forecast assumptions in the following areas:

- **Employee retirement and insurance benefits (ERIB);**
- **Purchased services;**
- **Supplies and materials; and**
- **Required textbook and capital outlay set-asides.**

During the course of the audit, the Treasurer applied some of the performance audit recommendations to the District's forecast.

MEVSD's May 2008 five-year forecast assumptions highlight areas in which the District made reductions for FY 2007-08 as well as areas in which reductions were approved for FY 2008-09. Forecast assumptions contain brief line-by-line explanations of the forecast projections. In addition, MEVSD's five-year forecast assumptions note that personal services include 1.5 percent incremental increases and no NWIs during the forecast period.

MEVSD's specific forecast line-item assumptions note that:

- Health insurance has been increased at the rate of 2 percent annually;
- Dental insurance has been increased at the rate of 10 percent annually;
- Purchased services have been increased at the rate of 5 percent annually; and
- Supplies and materials have been increased at the rate of 10 percent for FY 2008-09 and 5 percent annually thereafter.

AOS reviewed these assumptions and adjustments and found the following:

- MEVSD's negotiated agreements capped the increase in total potential health insurance obligations at 2 percent for FY 2007-08 (the health insurance threshold). However, as stated in the agreement, for FY 2008-09 any increase in health insurance cost over the health insurance threshold is the obligation of District employees rather than the Board. Thereafter, the District's health insurance increases are contingent upon future negotiated agreements (see **human resources** for further discussion).

- MEVSD's total dental insurance expenditures have increased by an average of 4.3 percent from FY 2004-05 through FY 2007-08. However, MEVSD's certificated dental insurance expenditures have increased at a rate of 10.4 percent while classified dental insurance expenditures have decreased at a rate of 0.6 percent. FY 2007-08 dental insurance expenditures as a whole were 8.8 percent of total insurance and 4.3 percent of total forecasted ERIB.
- MEVSD's purchased services projected average percentage increases from FY 2008-09 through FY 2011-12 are consistent with the stated 5 percent increase. However, from FY 2007-08 to FY 2008-09 purchased services are actually forecasted to decrease by approximately 1.6 percent.

The auditing and accounting guide *Prospective Financial Information* (American Institute of Certified Public Accountants (AICPA), 2008) states that the disclosure of significant assumptions is essential to the reader's understanding of the financial forecast. The basis or rationale for the assumptions should be disclosed to assist the user of the financial forecast to understand the presentation and make an informed judgment about it.

Identifying those assumptions that, at the time of preparation, appear to be significant to the financial forecast requires the careful exercise of judgment by the responsible party. By nature, financial forecasts embody a large number of assumptions and an attempt to communicate all assumptions in great detail may be unreasonable. At minimum, the assumptions disclosed should include:

- Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results; that is, sensitive assumptions;
- Assumptions about anticipated conditions that are expected to be significantly different from current conditions, which are not otherwise reasonably apparent; and
- Other matters deemed important to the prospective information or its interpretation.

The presentation should indicate which disclosed assumptions appeared particularly sensitive at the time of preparation. Although the responsible party should try to identify particularly sensitive assumptions, hindsight may reveal sensitive assumptions that did not appear to be particularly sensitive earlier. Particularly sensitive assumptions are those assumptions having a relatively high probability of variation that would materially affect the financial forecast. The impact on the financial forecast might result either from an assumption with a relatively high probability of a sizable variation or an assumption for which the probability of a sizable variation is not as high but for which a small variation would have a large impact.

Furthermore, the *Auditor of State's Best Practices* (AOS, spring 2004) outlines some common problems noted with, and typical recommendations for enhancement of, five-year forecasts.

- **Common Problem - Few sound assumptions.** As assumptions are the essence and most important determinant in developing useful financial forecasts, the entity should include detailed, sound assumptions in each forecast.
- **Common Recommendation - Create more detailed assumptions.** Assumptions should be sufficiently detailed to allow the reader to understand the factors included in each line item of the forecast.
- **Common Problem - Overlooked cost drivers and revenue generators.** Forecasts sometimes exclude important sources of revenue or costs.
- **Common Recommendation - Include all revenues and expenditures.** All revenues and expenditures that influence the fund should be included in the forecast.
- **Common Problems - Overly optimistic or conservative approach.** Governments occasionally overstate or understate revenues and expenditures in their forecasts. This may lead to a financial crisis as the result of operations is actually worse than forecasted amounts or to unnecessary increases in revenue or overly harsh, unnecessary expenditure reductions.
- **Common Recommendation - Ensure assumptions are reasonable.** Using the best information available to develop a forecast ensures greater accuracy and, as a result, a better understanding of the entity's long-term financial health. Reasonable forecasts ensure that the entity is prepared for changes in revenue or expenditures.

The following are areas in which forecast assumptions and line-items could be clarified:

- **Personal Services:** It appears that MEVSD includes only 1.5 percent step increases with no additional NWI in all forecasted FYs after FY 2008-09. The District should include a nominal NWI (e.g., 1 percent) in all forecasted FYs. Including a nominal NWI will ensure that likely obligations that are yet to be negotiated are minimally accounted for.
- **ERIB:** MEVSD has included a 2 percent increase in FY 2008-09 health insurance costs. However, it does not appear that this 2 percent increase is included in the District's negotiated agreements. Forecasting the Board's share of the health

insurance obligation to increase in FY 2008-09 by 2 percent has potentially overstated the actual contractual obligation which the District will incur during the FY. In addition, MEVSD has included 10 percent increases in dental insurance expenditures over the forecast period. However, total dental insurance has increased by an average of 4.3 percent over the last four years. A conservative estimate of 5 percent increases would appear to more accurately account for this trend.

- **Purchased Services:** MEVSD's assumptions state the District's purchased services will increase by 5 percent annually. Although this assumption is correct for FY 2008-09 through FY 2011-12, it is not accurate for FY 2007-08 to FY 2008-09 when purchased services are projected to decrease by 1.6 percent. While clarification of this point does not require a change to the forecast it would help stakeholders who are interested in understanding the District's forecast if the assumptions were as accurate and comprehensive as possible.
- **Supplies and Materials:** MEVSD's assumptions state that supplies and materials will increase by 10 percent from FY 2007-08 to FY 2008-09 and 5 percent annually thereafter. However, the forecast shows that supplies and materials will actually decrease by 1.3 percent from FY 2010-11 to FY 2011-12. MEVSD's assumptions do not explain why this line-item is projected to decrease from FY 2010-11 to FY 2011-12 and are inaccurate as stated.

Table 2-6 shows the impact of the proposed adjustments on MEVSD's personal services line-item. The revised projection includes a 1.5 percent incremental step increase with an additional 1 percent NWI.

Table 2-6: Revised Personal Services Projection

Personal Services	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Original Projection	\$30,443,700	\$29,830,000	\$30,280,000	\$30,730,000	\$31,180,000
Revised Projection	\$30,443,700	\$29,830,000	\$30,575,750	\$31,340,144	\$32,123,647
Difference	N/A	N/A	(\$295,750)	(\$610,144)	(\$943,647)

Source: MEVSD FY 2007-08 May five-year forecast

Note: Revised projections use MEVSD's FY 2008-09 as a base.

See **Table 2-7** for the impact of revised personal services on the five-year forecast.

MEVSD could improve the accuracy and reliability of its forecast by taking into account AICPA recommended practices as well as by avoiding common forecast problems recognized by AOS and outlined in *Best Practices* (Spring, 2004). Improving the forecast and assumptions will strengthen related departmental, building, and District-wide strategic plans.

R2.9 MEVSD should implement the performance audit recommendations contained in this and other report sections. Implementation of the performance audit recommendations would offset projected deficits and allow the District to maintain a significant positive year-end fund balance through FY 2011-12. Enhancing general operating revenue and/or identifying additional savings beyond those included in this performance audit would provide MEVSD more flexibility in choosing methods to reduce its costs.

In order to address the projected deficit, MEVSD had to make reductions in its staff and program operations. Reductions could have a negative effect on student performance and impact MEVSD's ability to provide some specialized programs to its students. Some reductions take staffing to levels below those of the peer average. In addition, some of the recommendations require collective bargaining between the District and its collective bargaining units. However, by implementing the performance audit recommendations, MEVSD can maintain a positive fund balance through FY 2011-12.

Table 2-7 demonstrates the impact on the five-year forecast and ending fund balances, assuming that all recommendations contained in this audit are implemented. Full implementation of the performance audit recommendations would result in a positive fund balance of approximately \$4.4 million in FY 2011-12.

Table 2-7: Revised Five-year Forecast (in 000s)

	Actual			Forecasted				
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenues:								
General Property (Real Estate)	\$25,439	\$26,315	\$27,427	\$27,174	\$27,325	\$27,415	\$27,463	\$27,538
Tangible Personal Property Tax	\$2,772	\$2,937	\$2,283	\$1,929	\$1,042	\$575	\$110	\$110
Unrestricted Grants-in-Aid	\$16,609	\$17,695	\$17,420	\$17,321	\$17,400	\$17,400	\$17,400	\$17,400
Restricted Grants-in-Aid	\$74	\$100	\$108	\$56	\$55	\$55	\$55	\$55
Property Tax Allocation	\$3,478	\$3,376	\$3,952	\$4,591	\$5,450	\$5,920	\$6,400	\$6,400
All Other Operating Revenue	\$561	\$767	\$1,512	\$1,843	\$1,850	\$1,850	\$1,850	\$1,850
Total Revenue	\$48,933	\$51,190	\$52,703	\$52,915	\$53,122	\$53,215	\$53,278	\$53,353
Other Financing Sources:								
Advances-In	\$23	\$30	\$21	\$0	\$0	\$0	\$0	\$0
All Other Financial Sources	\$80	\$63	\$10	\$118	\$0	\$0	\$0	\$0
Total Other Financing Sources	\$103	\$93	\$30	\$118	\$0	\$0	\$0	\$0
Total Revenues and Other Financing Sources	\$49,036	\$51,283	\$52,733	\$53,033	\$53,122	\$53,215	\$53,278	\$53,353
Expenditures:								
<i>Personnel Services Adjusted</i>	\$30,634	\$30,488	\$29,259	\$30,444	\$29,830	\$30,576	\$31,340	\$32,124
ERIB	\$9,555	\$10,425	\$11,195	\$10,554	\$10,240	\$10,465	\$10,690	\$10,915
Purchased Services	\$8,693	\$8,150	\$8,552	\$9,506	\$9,350	\$9,800	\$10,300	\$10,800
Supplies and Materials	\$2,348	\$2,065	\$1,274	\$934	\$1,030	\$1,080	\$1,135	\$1,120
Capital Outlay	\$605	\$328	\$51	\$136	\$250	\$250	\$250	\$250
Debt Service ¹	\$160	\$160	\$159	\$160	\$160	\$160	\$159	\$160
Other Objects	\$721	\$697	\$768	\$961	\$1,000	\$1,050	\$1,100	\$1,150
Total Expenditures	\$52,716	\$52,314	\$51,259	\$52,695	\$51,860	\$53,381	\$54,975	\$56,518
Other Financing Uses:								
Operational Transfers - Out	\$0	\$835	\$222	\$0	\$0	\$0	\$0	\$0
Advances - Out	\$30	\$21	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$30	\$855	\$222	\$0	\$0	\$0	\$0	\$0
Total Expenditure and Other Financing Uses	\$52,745	\$53,169	\$51,482	\$52,695	\$51,860	\$53,381	\$54,975	\$56,518
<i>Performance Audit Recommendations</i>	N/A	N/A	N/A	N/A	\$365	\$1,013	\$1,068	\$1,118
Result of Operations (Net)	(\$3,709)	(\$1,887)	\$1,251	\$338	\$1,627	\$847	(\$629)	(\$2,048)
Beginning Cash Balance	\$5,723	\$2,014	\$127	\$1,378	\$1,716	\$3,343	\$4,190	\$3,561
Ending Cash Balance	\$2,014	\$127	\$1,378	\$1,716	\$3,343	\$4,190	\$3,561	\$1,513
Outstanding Encumbrances	\$1,625	\$0	\$887	\$0	\$0	\$0	\$0	\$0
Fund Balance June 30 for Certification of Appropriations	\$388	\$127	\$491	\$1,716	\$3,343	\$4,190	\$3,561	\$1,513
Fund Balance June 30 for Certification of Contracts, Salary Schedule, Other Obligations	\$388	\$127	\$491	\$1,716	\$3,343	\$4,190	\$3,561	\$1,513
Unreserved Fund Balance June 30	\$388	\$127	\$491	\$1,716	\$3,343	\$4,190	\$3,561	\$1,513

Source: MEVSD and AOS

¹ Debt Service includes: Principal - H.B. 260 loans and interest and fiscal charges.

Table 2-8 summarizes the performance audit recommendations reflected in the revised five-year forecast. Recommendations are divided into two categories, those requiring negotiation and those not subject to negotiation. With the implementation of these recommendations, it is projected that MEVSD could maintain a positive fund balance without any new levy funds through FY 2011-12.

Table 2-8: Summary of Performance Audit Recommendations (in 000s)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Recommendations Not Subject to Negotiations				
R3.2 Eliminate 7.0 FTE educational support staff by the start of FY 2009-10	\$0	\$138	\$141	\$145
R3.3 Eliminate the pick-up retirement benefit for administrative employees	\$0	\$102	\$151	\$193
R3.8 Reduce special education expenditures	\$0	\$320	\$320	\$320
R4.3 Implementation of energy conservation programs	\$87	\$87	\$87	\$87
R4.4 Eliminate 2.0 FTE custodians	\$76	\$78	\$80	\$82
R5.1 Eliminate 18 regular needs public routes	\$130	\$130	\$130	\$130
R5.2 Eliminate 1.5 FTE clerical/routers	\$72	\$74	\$76	\$78
Subtotal Not Subject to Negotiations	\$365	\$929	\$985	\$1,034
Recommendations Subject to Negotiations				
R3.4 Negotiate a pro-rated health insurance scale for part-time employees	\$0	\$84	\$84	\$84
Subtotal Subject to Negotiations	\$0	\$84	\$84	\$84
Total Cost Savings from Performance Audit Recommendations	\$365	\$1,013	\$1,068	\$1,118

Source: AOS performance audit recommendations

HUMAN RESOURCES

Human Resources

Background

This section of the performance audit focuses on the human resource functions of the Milford Exempted Village School District (MEVSD or the District). Operations were evaluated against recommended practices, industry standards, and the average of the 10 peer districts¹ for the purpose of developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. Best practices and industry standards were drawn from various sources, including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Kaiser Family Foundation (Kaiser), the State Employment Relations Board (SERB), the Ohio School Boards Association (OSBA), and the National School Boards Association (NSBA).

Organizational Structure and Function

MEVSD's Superintendent and Treasurer report directly to the Board of Education (the Board). The Superintendent's Office includes the following three departments that share the primary responsibilities for human resource management.

- The Office of Human Resources (HR) is responsible for the supervision and management of the District's certificated employees and instructional aides. Primary responsibilities include managing staffing levels and employee benefits, recruiting staff, mentoring new employees, and overseeing the District's Personnel Committee. HR is managed by the Human Resource Director.
- The Office of Curriculum and Instruction (CI) manages the District's educational programs. The HR responsibilities include staff development and instructional support. Its other functions include the management and development of student curriculum, the selection and purchasing of textbooks and educational materials, testing and assessments, student achievement, and other curriculum related agendas.
- The Office of Business oversees transportation, maintenance, food service and custodial operations within the District and is responsible for supervision of the classified employees within these areas. MEVSD no longer employs a business manager² and

¹ See the **executive summary** for a list of the peer districts.

² MEVSD's Business Manager retired at the end of December 2007 and the position was eliminated from the table of organization.

therefore, these responsibilities are shared between the Business Office Administrator, Superintendent, Treasurer, HR Director, and Buildings Operations Manager.

The Superintendent was hired at the start of the 2007-2008 school year on an interim basis. In June 2008 the Board named the interim as the District's permanent Superintendent.

The Treasurer's Office oversees the financial operations of the District. Responsibilities include budgeting for all operations, managing District investments, and maintaining accounting records. The Treasurer's Office also conducts some HR functions as it is responsible for administering payroll for all employees. The Treasurer was also new to the District beginning FY 2007-08.

Staffing

Table 3-1 illustrates the full-time equivalent (FTE) staffing levels at MEVSD and the average of the peer districts as reported to the Ohio Department of Education (ODE) through the Education Management Information System (EMIS). Peer data is from FY 2006-07 while MEVSD's data is the most recent data available—FY 2007-08. The FTEs in **Table 3-1** have been presented on a per 1,000 student basis because staffing levels are partially dependent on the number of students served. In addition, presenting staffing data in this manner eliminates variances attributable to the size of the peers.

Table 3-1: MEVSD and Peer FTEs¹ per 1,000 Students Staffing Comparison

Students ²	MEVSD	Peer Average	Difference
		5,971	3,969
EMIS Staffing Category	FTEs Per 1,000 Students	FTEs Per 1,000 Students	Difference Per 1,000 Students
Administrators	4.4	5.1	(0.7)
Educational Staff	63.2	64.0	(0.8)
Professional Staff	2.7	1.9	0.8
Technical Staff	14.6	2.3	12.3
Office / Clerical Staff	6.7	12.2	(5.5)
Maintenance Workers	2.0	1.7	0.3
Custodians / Groundskeepers	6.6	6.7	(0.1)
Bus Drivers	6.7	8.7	(2.0)
Food Service Workers	4.9	6.5	(1.6)
All Other Reported Personnel	7.1	4.6	2.5
Total FTEs per 1,000 Students	119.0	113.5	5.4

Source: MEVSD FY 2007-08 as reported to ODE and verified with the District and peer FY 2006-07 staffing data as reported to ODE

Note: Totals may vary due to rounding.

¹ According to the *FY 2008 EMIS Reporting Manual* (ODE, 2008) instructions for reporting staff data, 1.00 FTE is equal to the number of hours in a regular working day for that position, as defined by the district.

² Reflects students receiving educational services from MEVSD and excludes the percent of time students are receiving educational services outside of the District.

As illustrated in **Table 3-1**, MEVSD's total FTEs per 1,000 students is higher than the peer average. However, primary categories of administrators, educational staff, office/clerical staff, custodians/groundskeepers, bus drivers, and food service workers are staffed lower than the peer average. Staffing is higher on a per 1,000 student basis when compared to the peer average in the following categories:

- **Professional Staff:** MEVSD employs 0.8 more professional staff FTEs per 1,000 students than the peer district average. The key drivers of this category are MEVSD's 9.0 psychologist FTEs³ and 5.6 speech and language FTEs. These positions serve the District's special education population, for which a separate assessment was conducted (see **R3.8**).
- **Technical Staff:** MEVSD employs 12.3 more technical staff FTEs per 1,000 students than the peer district average. The primary driver of this category is the District's 71.2 instructional paraprofessional FTEs. A detailed analysis of MEVSD's support staff is contained in **R3.2**.

³ 1.0 psychologist FTE is paid from the General Fund.

- **Maintenance Workers:** MEVSD employs 0.3 more maintenance FTEs per 1,000 students than the peer district average. See **facilities** for a detailed analysis of maintenance staffing.
- **All Other Reported Personnel:** MEVSD is 2.5 FTEs per 1,000 students higher than the peer district average. The District reported 42.6 FTEs in this category, which included 40.6 monitor FTEs. These positions are included in the detailed analysis of MEVSD's support staff (see **R3.2**).

In addition to peer average comparisons on a per 1,000 student basis, MEVSD's staffing levels were compared to State minimum standards and recommended practices in the areas where additional benchmarks were available. State minimum standards are not suggested staffing levels but rather the minimum FTEs required by OAC to support the District's student population. Recommended practices for classified personnel, on the other hand, are industry standards and are considered optimal staffing levels for particular functions. **Table 3-2** illustrates these additional staffing comparisons.⁴

⁴ A detailed analysis of maintenance workers, custodians, and groundskeepers was conducted in the **facilities** section and captures the specific industry benchmarks and workload measures unique to these functional areas. Also, an analysis of recommended riders per bus (see **transportation**) provides a benchmark for the optimal number of bus routes and drivers for the District.

Table 3-2: MEVSD Staffing Comparison to OAC and Recommended Practices

Certificated Personnel FTEs	MEVSD	State Minimum	Difference
Principals/Assistant Principals ¹	13.0	8.0	5.0
Regular Teachers ²	267.0	207.8	59.2
Educational Service Personnel (ESP) ³	33.0	26.0	7.0
Classified Personnel FTEs	MEVSD	Recommended Practice ⁴	Difference
Maintenance Workers ⁵	12.0	10.0	2.0
Groundskeeper	0.0	5.0	(5.0)
Custodians	39.5	27.5	12.0
Bus Drivers (Based on Active Buses) ⁵	61	43	18

Source: MEVSD FY 2007-08 staffing levels, State minimum ratios, and recommended practices

¹ OAC § 3301-33-05 requires school districts to provide every school with the services of a principal. Schools with 15 or more FTE teachers require a full time principal. OAC does not require districts to provide the services of assistant principals.

² OAC § 3301-35-05 requires school districts to maintain district-wide students-to-teacher ratios of at least 1.0 classroom teacher FTE for every 25 students in the regular student population.

³ OAC § 3301-35-05 requires that school districts employ a minimum of 5.0 ESP FTEs for every 1,000 students in the regular student population. These ESP must be assigned to at least five of the eight following areas: counselor, library media specialist, school nurse, visiting teacher, social worker, elementary art, music, and/or physical education.

⁴ American School and University's *Maintenance and Operations Cost Study* recommended maintenance FTEs per square foot and groundskeeper FTEs per acre, National Center for Education Statistics custodian FTEs per square foot, and the American Association of School Administrators' riders per bus.

⁵ Total does not include bus/vehicle mechanics. Also, MEVSD reports 39.9 FTEs in this category; however, the assessment is based on active buses and, as a result, actual employees is shown in the table.

Although it is not a common practice for Ohio school districts to operate at State minimum standards for certificated personnel, the comparisons illustrate the District has additional options if future staffing reductions become financially necessary.

During the course of the performance audit MEVSD approved reductions for FY 2008-09 as part of its financial recovery plan (see **financial systems**). Personnel were among these reductions and included:

- **Educational Staff:** 15 teacher FTEs and 6 permanent substitute teacher FTEs;
- **Professional Staff:** 1 counselor FTE;
- **Technical Staff:** 13 instructional paraprofessional FTEs;
- **Maintenance:** 1 maintenance FTE; and
- **Custodians:** 1 custodian FTE.

Compensation

Because employee compensation can be impacted by factors outside management's direct control, such as geographic location and surrounding district competition, AOS compared MEVSD's average salaries to a select group of districts, referred to as the surrounding districts.⁵ These surrounding districts were used in place of the 10 peer average to provide a comparison of employee compensation, taking geographic location and regional competition into consideration. The surrounding districts include four districts to the east of MEVSD (in Clermont County) and four districts to the west of MEVSD (in Hamilton County). Salary comparisons were made to the average of the surrounding districts, the average of the east districts, and the average of the west districts. **Table 3-3** illustrates this comparison.

Table 3-3: MEVSD and Surrounding District FY 2007-08 Average Salaries

	MEVSD ¹	East Districts		West Districts		Surrounding Districts	
		Average Salary	Percent Difference	Average Salary	Percent Difference	Average Salary	Percent Difference
Administrators	\$80,546	\$81,905	(1.7%)	\$87,579	(8.0%)	\$84,742	(5.0%)
Educational Staff	\$55,356	\$54,969	0.7%	\$66,299	(16.5%)	\$60,634	(8.7%)
Professional Staff	\$57,368	\$57,401	(0.1%)	\$69,655	(17.6%)	\$63,528	(9.7%)
Technical Staff	\$23,660	\$25,922	(8.7%)	\$32,607	(27.4%)	\$29,265	(19.2%)
Office / Clerical Staff	\$34,150	\$26,066	31.0%	\$25,563	33.6%	\$25,814	32.3%
Crafts & Trades Workers	\$44,179	\$45,169	(2.2%)	\$47,875	(7.7%)	\$46,522	(5.0%)
Operative Staff ²	\$26,810	\$19,092	40.4%	\$38,396	(30.2%)	\$34,535	(22.4%)
Service Workers	\$25,651	\$20,310	26.3%	\$34,023	(24.6%)	\$27,166	(5.6%)
Total Average Salary	\$45,452	\$45,501	(0.1%)	\$54,050	(15.9%)	\$49,776	(8.7%)

Source: MEVSD and surrounding district FY 2007-08 average salaries as reported to ODE

Note: Total average reported salary is calculated using total salaries and total FTEs reported in EMIS and therefore is not the average of each staffing category.

¹ MEVSD average salaries in all categories except administrators were adjusted 1.5 percent to account for the base increase effective January 1, 2008.

² Only one of the east districts (Loveland CSD) reported operative staff salaries and therefore may skew the average.

As illustrated in **Table 3-3**, MEVSD's total average salary is comparable to the east district average but below the west district average. The one area where MEVSD's average salaries were significantly higher than the surrounding districts was office/clerical staff. To account for these variances, specific salary schedules were examined in greater detail. It was determined that these higher averages can be attributed to the fact that some of MEVSD's central office clerical employees hold high level administrative responsibilities. This in turn allows the District to employ fewer clerical staff (see **Table 3-1**) but inflates the average salary. When examining

⁵ The surrounding districts used in the salary comparisons include Forest Hills LSD, Indian Hill EVSD, Mariemont CSD, Sycamore Community CSD (Hamilton County), Loveland LSD, Goshen LSD, Clermont Northeastern LSD, and West Clermont LSD (Clermont County).

staffing and total clerical salaries from a composite perspective, MEVSD is in line with the surrounding district averages.

Negotiated Agreements

MEVSD's certificated and classified employees are represented by their respective collective bargaining units, each with its own negotiated agreement. Certificated employees are covered under the negotiated agreement (certificated agreement) between the Milford Education Association (MEA) and the MEVSD Board of Education (the Board) as well as the Memorandum of Understanding between the MEA and the MEVSD Board (certificated amendment). Classified employees are covered under the master contract (classified agreement) between the Milford Classified Employees Association (MCEA) and the MEVSD Board as well as the amendment to the contract between the MCEA and the MEVSD Board (classified amendment). Both the certificated and classified agreements are effective July 1, 2006 through June 30, 2009, while both the certificated and classified amendments resulted from re-openers and are effective for FY 2007-08.

MEVSD's negotiating team consists primarily of the Superintendent, HR Director, and the District's attorney. The District's negotiated agreements both have re-opener clauses each year of the contract for salary and insurance. However, because these issues are typically the most contentious, this means that the District has a de-facto renegotiation each year of the three year contract. The re-opener begins each March for the following school year. The last re-opener began in March 2007 (for FY 2007-08) but did not end until November 2007. The District's drawn out negotiation for the re-opener was primarily attributed to a disagreement over whether the certificated employees would be awarded a one time bonus or a percentage wage increase. Certificated and classified employees received the wage increase (1.5 percent on the base rate) which became effective in January 2008.

Given the lengthy FY 2007-08 re-opener negotiations, the District did not negotiate a full re-opener for FY 2008-09. Rather, the negotiations focused only on the health savings account (HSA) language because the Board is required to re-approve it each year. As part of the performance audit, certain contractual issues were assessed and compared to the ORC, OAC, recommend practices, and typical provisions in Ohio school district collective bargaining agreements (see **R3.5**).

Employee Benefits

MEVSD offers medical coverage to its employees working 20 or more hours per week. Employees who are eligible for health insurance coverage, but choose to opt out, receive a \$300 payment each month in lieu of medical insurance premiums paid by the Board. Eligible employees can choose from the four following plan options:

- Anthem Blue Preferred Primary Health Maintenance Organization (HMO);
- Anthem Blue Access Preferred Provider Organization (PPO);
- Anthem Blue Access Health Savings Account (HSA); and
- Opted Out.

MEVSD's certificated and classified agreements required the Board to cover 90 percent of employee health insurance premiums in FY 2006-07. During the FY 2007-08 bargaining agreement re-opener, the District and bargaining members agreed on a Board "Health Insurance Threshold" (the Threshold) for the remaining term of the bargaining agreements where the Board agreed to pay 2 percent more than it paid (in total) in FY 2006-07 for employee health insurance. If total premium costs exceeded the Threshold in following years, bargaining members would be responsible for the premium costs in excess of the Threshold.

The 2 percent increase in total contribution raised the Board's share of premium costs from 90 percent in FY 2006-07 to 93 percent in FY 2007-08. This was attributable to the District's insurance renewals and fewer covered employees. **Table 3-4** illustrates the premium contributions for each of the three plan options in FY 2007-08.

Table 3-4: MEVSD Anthem Health Insurance Plan Options – Monthly Costs

MEVSD	PPO Plan		HMO Plan		HSA Plan	
	Single	Family	Single	Family	Single	Family
Employee Contribution	\$25.18	\$66.75	\$24.43	\$64.73	\$16.37	\$43.38
Board Contribution	\$334.59	\$886.63	\$324.52	\$859.99	\$217.48	\$576.32
Total Premium Cost	\$359.77	\$953.38	\$348.95	\$924.72	\$233.85	\$619.70

Source: MEVSD

MEVSD's HMO and PPO FY 2007-08 insurance premiums were compared to industry benchmarks from the Kaiser Family Foundation (Kaiser) and the State Employment Relations Board (SERB). These comparisons illustrated that the District is in line with industry averages. Additionally, MEVSD employees agreed to changes in the PPO and HMO benefits regarding deductibles, coinsurance percentage, and co-pays for FY 2007-08 which also were consistent with industry benchmarks for coverage provisions.

The HSA Plan was a new option offered to MEVSD employees beginning FY 2007-08. The District's Insurance Committee determined, with input from a health insurance consultant, that the HSA would benefit the District. The HSA is a low premium/high deductible health care coverage option that protects employees from large medical expenses while the savings account portion gives employees the opportunity to set aside tax exempt money for routine medical expenses. Preventative services are covered at 100 percent while the employee is responsible for 100 percent of any non-preventative medical charges up to the deductible amount. After the deductible is met (\$2,000 for single and \$4,000 for family) the plan covers 100 percent of all additional medical charges.

In addition to the coverage portion, the HSA Plan includes an additional benefit of a savings account. The Board makes contributions into the enrolled employees' Health Savings Account each month. Contributions are \$52 per pay for single (\$1,248 annually) and \$147 per pay for family (\$3,528 annually). Employees can withdraw these contributions for medical care or allow the contributions to accumulate with tax free interest and withdraw at retirement.

MEVSD plans to continue offering the HSA Plan and making contributions into the enrolled employees' health savings accounts. The contribution amounts are negotiable annually. The District also hopes to negotiate a premium threshold for its PPO and HMO plans. This threshold would be the District's maximum contribution dollar amount per employee (one for single and one for family). In addition to HSA contributions and premium thresholds, MEVSD should consider prorated premium coverage for part-time employees (see **R3.4**).

HR Management

MEVSD demonstrates successful internal communication efforts with employees. Building principals and central office staff indicated that the Treasurer, Interim Superintendent, and HR Director regularly provide information and updates and are consistently available to staff to answer questions or provide assistance. Board members indicated the District's key administrators provide them with management information, including financial reports, to make sound decisions for the District. Building-level communication is maintained through monthly staff meetings and periodic updates. Principals have developed individualized methods of communicating with building staff, including weekly bulletins, email updates, and calendars of events.

Although budget cutbacks led MEVSD to discontinue the practice of mailing published newsletters to community members, the District continues efforts to communicate with its community and stakeholders. MEVSD's web site provides employees and the community with a range of information including District news, a school calendar, building contacts and locations, Board meeting minutes and videos (see **noteworthy accomplishment** in the **executive summary**), and individual department links. Committees representing parents, community members, and District employees were developed in an attempt solicit feedback and extend communication efforts. Engagement meetings were held throughout the year at different schools and the results were presented to the Board. Recommendations for future consideration were made to the Board in the key areas of staffing, student programs, transportation, and communication (see **R3.6** for additional analysis of soliciting feedback).

Specialized Instruction

MEVSD's Success Academy originated in FY 2000-01 with support of an Ohio Alternative Education Grant. It provides specialized services to students whose actions were jeopardizing their chances of graduating. The Success Academy consists of the Opportunity School and the Alternate School and is located in a modular unit behind Milford Junior High School.

The Opportunity School is a virtual learning program where students take online courses to recover credits needed for graduation or grade-level advancement. Students use the Internet to access a virtual curriculum which is very similar to Milford High School courses. A variety of students have used the program, including students who are ill, students who are new mothers, students with drug issues, or students who made mistakes and fell behind. The Alternate School is a short-term placement in lieu of suspension or expulsion and is limited to 20 students at any one time. Students are referred to the program by a principal or assistant principal. Once accepted, students are provided with assistance from the Success Academy staff to complete and submit assignments made by the District's regular classroom teachers.

Vocational Education is available to MEVSD high school students through the Great Oaks Institute, Hamilton County's career center. Live Oaks Career Development Campus (Live Oaks) is the branch of Great Oaks which serves students from 12 surrounding school districts, including MEVSD.

In addition to the alternative and vocational programs, MEVSD serves a large percentage of students who require Individual Education Plans (IEPs) and are educated through special education programs (see **R3.8**).

Audit Objectives for the Human Resources Section

The following is a list of the questions used to evaluate the HR functions at MEVSD:

- Is the District's allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing districts, contiguous districts, State averages, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and recommended practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does District effectively balance staffing and in-house programs with other available resources for its specialized programs?

Recommendations

Staffing

- R3.1 MEVSD should develop a formal staffing plan to address current and future staffing needs, similar to the plans used by leading school districts. Establishing staffing allocations for administrative, certificated, and classified personnel will assist the District in better planning for the future. Additionally, the development of a formal staffing plan will help MEVSD ensure it is in compliance with State and federal requirements. The plan should illustrate how staffing and related costs impact the District's financial condition and overall mission and goals.**

While MEVSD does not have a formal staffing plan, the HR Director and Superintendent work with building principals to determine staffing requirements. The District tracks and examines enrollment trends within neighborhoods to plan for future needs and occasionally considers the possibility of re-districting. Although retirement is not a controllable issue and employees are not required to retire when eligible, the District sends intent sheets to employees in an attempt to gauge retirements and voluntary separations. Financial situations have required MEVSD to approve staffing reductions for FY 2008-09. The HR Director compiled a spreadsheet to track and organize the reductions and corresponding adjustments. Building principals were closely involved in this process and meetings were held to discuss individual building staffing requirements (see **noteworthy accomplishment** in the **executive summary**).

Strategic Staffing Plans (Society for Human Resource Management (SHRM), June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. Strategic staffing plans form an infrastructure to support effective decision-making in an organization. *Staffing Strategy Over the Business Cycle* (SHRM, June 2005) elaborates on the effect of strategic staffing plans on organizations. In detailing how organizations may react to changes in the business cycle, SHRM noted that reductions in staffing to meet declining labor needs often did not result in anticipated savings for 12 to 18 months. As a result, staffing plans, tied to strategic plans and organizational needs can help organizations to be proactive in addressing human capital needs and better meet the constraints of their operating environments.

Leading practice organizations that use strategic staffing plans include Tulsa Public Schools (TPS) in Tulsa, Oklahoma; Lakota Local School District in Butler County, Ohio; and Olentangy Local School District in Delaware County, Ohio. In general, these staffing plans incorporate state and federal regulations, workload measures, and industry benchmarks, as well as staffing levels determined by district administrators. The plans outline the allocation of regular and special education, administrative, other instructional,

clerical, custodial, and food service staff using recommended practices and national workload measures. These staffing plans guide staffing decisions using an assortment of variables and formulas.

Instead of using a formal plan, MEVSD discusses staffing levels and staffing is reallocated as financial concerns arise. Sometimes, though, these decisions are made too late to generate the needed financial relief for the District.

In FY 2006-07, MEVSD attributed 79 percent of its General Fund expenditures to employee salaries and benefits. Because the majority of expenditures are allocated to personal services, the District should be continually aware of any operating or program changes that could affect staffing levels. Without a formal staffing plan that incorporates established benchmarks, such as student-to-teacher ratios and enrollment projections, MEVSD may not use the most effective method to plan for future staffing adjustments, financial constraints, or State and federal requirements. Developing a formal staffing plan, followed by annual reviews and updates of the plan, will help ensure that the MEVSD allocates personnel in an appropriate and cost effective manner.

- R3.2 MEVSD should continually review its need for support staff and consider implementing reductions to relieve the General Fund of some of the related financial liabilities. If the District does not implement other recommendations within the performance audit and other strategies to reduce costs, it may need to consider eliminating some additional classified educational support staff positions. When determining reductions in these areas, MEVSD should consider the financial and academic impact the staffing changes will have on the District.**

During the course of the performance audit the Board approved the District's fiscal caution financial recovery plan which includes the elimination of 13 aides and reduces the number of days worked by Milford Preschool aides for FY 2008-09. In addition, the District developed a staffing plan illustrating the number, purpose, and cost of teaching aides within each school building.

School districts use a range of support personnel to assist with instruction and care of students. Job expectations, responsibilities, and qualification levels allow districts to classify support employees in a series of EMIS categories. Some support personnel are certificated employees who require specific degrees and qualifications and provide direct educational support to students. A district's support staff can also include classified employees responsible either for educational support in classrooms or non-educational support outside classroom (buses and lunchrooms). The following are the EMIS classifications and definitions for common support positions used in school districts:

- **Remedial Specialist:** This assignment requires at least a baccalaureate degree, including skills in the field of education or educational psychology. Specifically, the remedial specialist performs activities concerned with correcting or improving specific marked deficiencies which are not due to impairment of mental or physical ability (such as a deficiency in content previously taught but not learned).
- **Tutor/Small Group Instructor:** This assignment requires at least a baccalaureate degree and is to tutor or provide small group instruction to students without disability conditions.
- **Teaching Aide:** This position assists teachers with routine activities associated with teaching, such as monitoring, conducting role exercises, operating equipment, and clerking.
- **Instructional Paraprofessionals:** This assignment requires a combination of basic scientific knowledge and manual skills obtained through approximately two years of post high school education. Instructional paraprofessionals provide assistance in one or more of the following ways: one on one tutoring, classroom management, instructional assistance in a computer lab, instructional support in a library or media center, or instructional support under the direction of a teacher.
- **Monitoring:** The monitoring assignment includes responsibilities such as taking attendance and helping keep order on buses, playgrounds, and in the lunchrooms.
- **Attendant:** This assignment is responsible for assisting handicapped children with personal health care needs within the confines of the educational setting.

Because districts have unique needs and staffing requirements, MEVSD's support staff is compared to the peer average in three categories including certificated support staff (remedial specialists and tutor/small group instructor), classified educational support staff (teaching aide and instructional paraprofessionals), and classified non-educational support staff (monitors and attendants). **Table 3-5** illustrates this comparison.

Table 3-5: MEVSD and Peer Support Staff Comparison

	MEVSD		Peer Average		Difference	
Students	5,971		3,969		2,002	
Certificated Educational Support Staff						
	FTEs	Per 1,000 Students	FTEs	Per 1,000 Students	Difference per 1,000 Students	FTEs Above (Below) ¹
Remedial Specialists	14.0	2.3	4.2	1.1	(1.0)	(6.0)
Tutor/Small Group Instructors	0.0	N/A	9.8	2.5		
Certificated Support Staff	14.0	2.3	14.0	3.3		
Classified Educational Support Staff						
	FTEs	Per 1,000 Students	FTEs	Per 1,000 Students	Difference per 1,000 Students	FTEs Above (Below) ¹
Teaching Aides	0.0	N/A	20.2	5.1	6.1	36.4
Instructional Paraprofessionals	71.2	11.9	3.4	0.9		
Educational Support Staff	71.2	11.9	23.6	5.8		
Classified Non-Educational Support Staff						
	FTEs	Per 1,000 Students	FTEs	Per 1,000 Students	Difference per 1,000 Students	FTEs Above (Below) ¹
Monitors	40.6	6.8	15.9	4.0	2.2	13.1
Attendants	0.0	N/A	2.2	0.6		
Non-Educational Support Staff	40.6	6.8	18.1	4.6		
All Support Positions						
	FTEs	Per 1,000 Students	FTEs	Per 1,000 Students	Difference per 1,000 Students	FTEs Above (Below) ¹
Total Support Positions	125.8	21.1	55.7	14.0	7.1	42.4

Source: MEVSD FY 2007-08 and peer FY 2006-07 staffing data as reported to ODE

Note: Totals may vary due to rounding

¹ Calculated by multiplying the difference per 1,000 students by the MEVSD's number of students and then dividing by 1,000. This represents the number of reductions that would bring MEVSD's support staff per 1,000 students in line with the peer average.

As illustrated in **Table 3-5**, MEVSD employs more support personnel per 1,000 students than the peer average, specifically in the area of instructional paraprofessionals. MEVSD codes all instructional aides in this category, including regular classroom teaching aides and those dedicated to the special education population. Many teaching aides work directly with special education students as required by individual education plans (IEPs) (see **R3.8**) or with intervention students at the District's Success Academy.

MEVSD's financial recovery proposal included the elimination of 12 instructional aides and 1 Success Academy Aide in FY 2008-09 for a projected savings of \$162,000.⁶

The majority of the reported FTEs within the monitoring category are extended day caregivers and food service monitors compensated from special or enterprise funds that do not affect the District's General Fund.

MEVSD employs fewer educational staff per 1,000 students (see **Table 3-1**) than the peer average in the areas of counselors and regular teachers. When considering the elimination of support staff to reduce General Fund expenditures, MEVSD should closely examine the academic impact the reductions may have on its students.

Financial Implication: Eliminating 7.0 FTE teaching aide positions before the start of FY 2009-10 would save the District approximately \$138,000 annually and \$414,000 by the end of the forecasted period. These savings are based on the lowest paid paraprofessionals and will increase if the reductions occur through retirement or voluntary separation of more experienced or higher paid staff.

Employee Benefits

R3.3 MEVSD should negotiate the discontinuation of the pick-up on the pick-up retirement benefit offered to its administrative staff. Covering the required employee retirement contribution for its 28 administrators is costly to the District and is a form of compensation the Board is not required by law to provide. Eliminating this benefit will reduce expenditures and may allow the District to avoid reductions in other areas such as personnel, that may directly affect the education of students. The District may need to renegotiate this provision in its administrators' employment contracts or wait to implement this recommendation until the current contracts have expired. In addition, implementation of this recommendation may require negotiation with administrators on salaries and wages.

While MEVSD's classified and certificated employees make required employee retirement contributions through salary deduction to the State Employees Retirement System (SERS) or State Teachers Retirement System (STRS), the District's 28 administrators receive a fringe benefit whereby the Board makes this contribution for them. This benefit is referred to as pick-up. In addition, these administrators receive a pick-up on the pick-up because not only does the Board cover the employees' required 10 percent contribution but it also pays an additional 10 percent of the 10 percent (1 percent of salary) as a retirement contribution. In addition to the District's 3 senior level administrators (Superintendent, Treasurer, and HR Director), 25 other administrative

⁶ This proposal was approved by the MEVSD Board on May 15, 2008.

employees, including principals, assistant principals, directors and department managers receive the paid retirement benefit.

During the course of this audit, MEVSD eliminated this retirement benefit for two of these administrators beginning FY 2008-09⁷. The District also indicated that it plans to discontinue the benefit for two additional positions once individual contracts expire in FY 2009-10.

STRS and SERS require employees to contribute 10 percent and employer's to contribute 14 percent of employees' gross salaries. Usually, the employer deducts the employee's 10 percent contribution from his or her paycheck—this is called the payroll reduction method and is usually applied before taxes. In some instances, employers may elect to pay the employee share on behalf of the employee.

Paying the employee share of retirement contributions allows some districts to control direct administrative salary costs and attract administrative personnel by offering these fringe benefits in lieu of a higher salary (see **Table 3-3** for salary comparisons to surrounding districts). However, offering this benefit to employees other than senior level administrators can be costly as it essentially increases the employee's pay by 11 percent. In fact, MEVSD indicated that many of its neighboring districts offer this benefit. MEVSD offers this benefit to all 28 FTE administrators. As it is a common practice in Ohio, MEVSD may decide to continue this fringe benefit for its senior level staff (Superintendent, Treasurer, and HR Director). However, the District should consider discontinuing the benefit for its remaining administrative staff in order to reduce costs and avoid reductions in other areas.

Financial Implication: If MEVSD eliminates the retirement benefit for administrators with expired contracts it would save approximately \$102,000 in FY 2009-10. For the years beyond FY 2009-10, this financial implication assumes that new administrator contracts will be negotiated and these will not include the pick-up on the pick-up provision.

R3.4 MEVSD should negotiate a pro-rated contribution scale for its part-time employees receiving health insurance from the District. Requiring employees who work less than seven hours per day to contribute a pro-rated monthly premium percentage would decrease MEVSD's share of health insurance expenditures.

MEVSD employees who work at least 20 hours per week are eligible for medical insurance coverage. In FY 2007-08, the District provided full health insurance coverage to 34 employees working less than 7 hours per day (or 35 hour per week).

⁷ With the elimination of the pick-up benefit for the two administrators during the course of this audit, MEVSD will save approximately \$10,000 in FY 2008-09.

Many Ohio school districts, including some of the surrounding school districts, provide medical coverage to part-time employees on a pro-rated basis. Districts often incorporate language within employee bargaining agreements stipulating that part-time employees must contribute to premium costs. For example, part-time employees at Loveland City School District in Hamilton County contribute to premium costs in an amount proportionate to the number of hours worked per week for the individual employee. Sycamore Community School District in Hamilton County provides a tiered premium schedule in which contribution levels for part-time employees are determined based a range of hours worked. Specifically, employees working more than 36 hours contribute 10 percent, between 30 and 36 hours contribute 20 percent, between 20 and 30 hours contribute 30 percent, and between 14 and 20 hours contribute 50 percent.

Providing part-time employee health insurance premiums at the same level as full time employees is costly to the District. Requiring part-time employees to contribute a pro-rated percentage would help the District reduce its contribution for health insurance and alleviate projected deficits. It may also allow the District to avoid reductions in other areas that directly affect education, such as staffing levels.

Financial Implication: A pro-rated contribution scale based on the percent of time worked for part-time employees would save MEVSD approximately \$84,000 in FY 2009-10 and \$251,000 over the forecasted period. Although the certificated and classified collective bargaining agreements do not include language regarding part-time employee benefits, savings are projected in only those years not included in the current negotiated agreement (FY 2009-10, FY 2010-11, and FY 2011-12), assuming the District will implement a pro-rated scale at the beginning of its next bargaining agreement term. This estimate of savings could potentially increase or decrease based on the results of negotiations and the number of insured part-time employees.

Negotiated Agreements

R3.5 MEVSD should attempt to renegotiate provisions in its collective bargaining agreements which exceed State minimums and typical provisions in Ohio school district bargaining agreements. These provisions limit MEVSD's ability to control costs and successfully plan for future financial needs. Successful renegotiation to limit or remove contract provisions that exceed State requirements or are contrary to recommended practices would reduce costs and help to avoid future financial deficits.

As a component of the performance audit, certain provisions within MEVSD's certificated and classified agreements were compared to State minimum standards and typical provisions in Ohio school district bargaining agreements. The following areas of

the certificated and classified agreements were found to be in excess of State requirements:

- **Maximum sick leave accrual:** MEVSD's certificated and classified agreements allow employees to accrue up to 260 days of sick leave, an amount well in excess of the State minimum requirement of 120 days. Although each agreement stipulates that accrued sick leave payouts will be based on 230 days, this provision represents the potential for increased financial liability when accrued but unused sick leave is paid out to retiring employees.
- **Maximum sick leave payout:** MEVSD's certificated and classified agreements allow accrued but unused sick leave pay outs to employees at levels which are higher than State minimum requirements. MEVSD's certificated agreement allows for a retirement payment of 25 percent of accrued but unused sick leave up to a maximum of 57.5 days. The classified agreement allows for a retirement payment of the lesser of 57.5 days or 25 percent of accrued but unused sick leave. These payout levels are higher than the State minimum of 30 days.

The following two areas were unique to the classified agreement and were found to be in excess of State requirements:

- **Paid holidays:** MEVSD's classified agreement provides 12 month employees with 11 paid holidays which is in excess of the 7 State required paid holidays. Providing classified employees with more holidays can reduce overall productivity as it reduces the overall number of days devoted to District operations.
- **Vacation:** MEVSD's classified agreement allows 12 month employees to accrue vacation at a rate higher than the State minimum requirement. Classified employees with 1 year or more are entitled to 2 weeks vacation, 8 years or more are entitled to 3 weeks vacation, 13 years or more are entitled to 4 weeks vacation, and 20 years or more are entitled to 5 weeks vacation. State minimum requirements are employees with 1 to 9 years are entitled to 2 weeks vacation, 10 or more years are entitled to 3 weeks vacation, and 20 years or more are entitled to 4 weeks vacation. Paid vacation in excess of State minimum requirements represents a potential for decreased operational efficiency.

Modifying contract provisions can be difficult because they are specified in the District's negotiated agreements and changes need to be approved by the respective bargaining units. However, if successful, these adjustments would help MEVSD reduce costs and decrease projected deficits. Because the number of retirees and amount of vacation used

varies from year to year, a financial implication could not be calculated for this recommendation.

R3.6 MEVSD should conduct annual surveys of its employees as a formal method to solicit feedback, gauge employee satisfaction, and assist the District in determining areas for improvement. The District should also consider community surveys as a way to measure community values and concerns, and improve stakeholder support of the District.

During the course of the performance audit, MEVSD developed an exit interview questionnaire for certified staff as a means to obtain feedback from departing employees.

As stipulated by MEVSD's certificated bargaining agreement, building principals co-chair monthly liaison meetings with teachers for the purpose of discussing methods or ideas to increase the effectiveness of teachers in providing education. In addition to this monthly liaison meeting, principals indicated that building staff meetings also provide employees with an informal ways to submit feedback on a range of issues. District engagement meetings of the committees representing parents and community members and the Parent Teacher Organizations (PTOs) successfully provide District parents as well as stakeholders with the opportunity to voice opinions and ideas on District operations. However, MEVSD does not have a formal method, such as a satisfaction survey, in place for employees to submit feedback on their work environment and other employment related conditions. Furthermore, the District does not conduct external surveys to solicit expectations or measure community satisfaction.

Soliciting Employee Feedback: Getting Results (Society for Human Resource Management (SHRM), 2001) states that a company can only be as good as its employees. Therefore, it is important to obtain feedback and quickly respond to employee needs, ideas, and suggestions. Asking employees what they are thinking can allow for higher retention rates, lower absenteeism, improved productivity, better customer service, and better morale. Surveys are the most effective way to tap into the thoughts of the workplace and soliciting feedback should be a regular part of the HR function. Furthermore, *Recommended Budget Practices* (Government Finance Officers Association (GFOA), 1999) suggests that governments develop mechanisms to identify stakeholder concerns, priorities, and needs. In addition to public hearings and citizen interest groups, community surveys are another mechanism to consider when promoting stakeholder participation.

MEVSD does not survey employees to gauge the level of workplace satisfaction and obtain ideas and suggestions for improvement. Without effective feedback on working conditions, the District may experience difficulty in finding effective ways to improve

employee morale. Lacking a formal method to solicit community input may limit the District's ability to gather important feedback. Developing formal procedures for evaluating the employee work climate and community perceptions will provide valuable feedback which will allow the District to effectively target areas for future improvement. These surveys could solicit overall satisfaction of District operations, specific department performance, or individual school and neighborhood issues.

MEVSD could consider including the development and management of employee and community surveys on its web site to make the surveys more widely accessible. Employee and community survey results would provide the District with ideas, opinions, and suggestions to use when planning for future improvements.

R3.7 To ensure ongoing successful operations at MEVSD, Board members should continually seek out training and professional development opportunities to improve and advance their execution of District duties. The Ohio School Board Association (OSBA) and the National School Board Association (NSBA) provide a range of options that school board members may use to improve performance. For example, MEVSD's Board should use the standards set by NSBA to develop a method for evaluating itself. Self-evaluations could help the Board improve internal communication and strengthen its governing process, ultimately improving its service to the District. Additionally, examining employee and community survey results (see R3.6) will help the Board better understand and address priorities and concerns as they arise. These together will help ensure the Board's goals and actions represent the goals and expectations of the District and its community.

In January 2008, MEVSD's voters selected two new Board members as well as a new Board President. Veteran Board members indicated that they attend the OSBA's Capital Conference and regularly receive publications from professional organizations. Financial conditions in the District have kept MEVSD's Board busy and members have not explored internal self-development options or additional internal or external training. However, the Board has held meetings to hear recommendations from the community engagement committees and to take note of stakeholder opinions.

Becoming a Better Board Member (NSBA, 2006) recommends that in addition to evaluating operations by assessing public opinion, board members engage in regular self-evaluations to ensure they continue to exercise the most effective leadership possible. While there is no one correct method for board evaluation, *Becoming a Better Board Member* provides standards that school board veterans see as essential evaluation elements and outcomes. These standards recommend that evaluations cover the entire board (not individuals) and occur on an annual basis. Each board member should complete an evaluation form independently. Then, the board as a whole should compare and discuss results. The evaluation should assess both strengths and weaknesses, be based

on board goals (not district goals though they may be related), and include establishing goals and strategies for improving board performance.

OSBA offers training courses free of charge through its web site. These online training courses vary from as short as 10 minutes to more than one hour and comprise a range of topics including policies, collective bargaining and labor relations, levies, forecasts and funding, leadership, and school law. Additionally, OSBA training and conferences are available periodically in Columbus for \$35 to \$125 per session. *Becoming a Better Board Member* (NSBA, 2006) also suggests that attending meetings of the state school boards association can provide the opportunity to spend informal time with other board members in a setting that is removed from the day-to-day pressures of one's district and can assist with improving a board.

With relatively new Board members and key administrators, MEVSD could benefit from the implementation of leading practices and procedures to assist in improving District operations. Considering MEVSD's community perceptions, decisions of the prior Board and Administration, and the current financial condition, Board members may experience pressure as decision makers. Training and professional development will enable the Board to work together to make more effective decisions during difficult times.

Internal issues may arise on any school board, such as personality conflicts, leadership issues, and communication problems. Self-evaluations can help the Board discover effective ways to work together and continually improve service to MEVSD's students, staff, and community. Developing a plan to effectively measure and evaluate internal performance may enable the Board to improve its service to the District. In addition to the annual goals and standards set for the District, the Board can use employee and community survey results (see **R3.6**) to ensure its goals and actions are in line with stakeholder expectations and foster continuous community support.

R3.8 MEVSD should evaluate opportunities and strategies to reduce direct special education expenditures to a level comparable to the peer average. These should include, at minimum, ongoing assessments of staffing needs and services, potential benefits of partnering with other districts for the provision of specialized instructional programs, and evaluation of the contracted services through the Education Service Center (ESC) of Clermont County.

During the course of the audit, the District stated that it was implementing additional training for teachers, targeted interventions, and core program and individualized education program reviews in an effort to reduce its costs in this area.

States use a variety of methods when determining funding for special education students. In Ohio, State funding is based on the number of disabled students plus an additional weighted amount for each child based on the type of disability. There are 13 different disability categories, sorted into 6 consolidated categories, each with a weight for determining funding. Because the level of disability directly affects the cost to educate the student, it is essential to first understand a district's special education population in relation to the types of disability when examining expenditures. **Table 3-6** illustrates MEVSD and the peer average disabled population by category.

Table 3-6: MEVSD and Peer FY 2006-07 Special Education Population

Categories	Percent of Disabled Population by Category			Funding by Category
	MEVSD	Peer Average	Variance	Weight
1: Speech Only	9.2%	13.7%	(4.5%)	0.2892
2: Learning Disability, Cognitive Disability, Other Health Minor	74.1%	68.2%	5.9%	0.3691
3: Hearing Impaired, Visually Impaired, Emotional Disturbance	6.6%	5.4%	1.1%	1.7695
4: Other Health Major, Orthopedic	1.2%	1.2%	(0.0%)	2.3646
5: Multi-handicapped	4.9%	5.6%	(0.7%)	3.1129
6: Traumatic Brain Injury, Autism, Deaf-Blind	4.1%	5.8%	(1.8%)	4.7342

Source: MEVSD and Peer FY 2006-07 December Child Count EMIS and ODE weighted formula

Table 3-7 illustrates MEVSD and the peer average special education expenditures per student for FY 2006-07.

Table 3-7: MEVSD and Peer FY 2006-07 Special Education Expenditures¹

	MEVSD	Peer Average	Variance
Special Education Students	693	348	345
Special Education Students as % of Total Students	11.3%	8.7%	2.5%
% of Special Education Students Mainstreamed into Regular Classrooms	79.8%	73.5%	6.3%
Direct Special Education Costs Per Student ²	\$9,070	\$7,075	\$1,994
Special Education Portion of Support Services Per Student	\$3,183	\$2,876	\$307
Special Education Portion of Regular Instruction Per Student	\$3,111	\$3,094	\$17
Total Special Education Expenditures	\$10,647,535	\$4,541,346	\$6,106,189
Special Education Costs Per Special Education Student	\$15,364	\$13,046	\$2,318

Source: ODE's FY 2006-07 Special Education Fiscal Accountability Report

¹ Includes expenditures from General fund (001), Emergency Levy fund (016), and Disadvantaged Pupil Impact Aid fund (447)

² Excludes transportation expenditures as it is examined in another section of the performance audit

As illustrated in **Table 3-7**, MEVSD spent \$2,318 more per special needs student than the peer average in FY 2006-07. Direct special education cost per student was the significant portion of this variance. Expenditures in this category include services related directly to special education pupils such as special education instruction (teachers), aides, and attendants. When examining the allocation of direct special education expenditures, MEVSD's allocation of 23.4 percent to special education aides appeared to be the area of difference when compared to the peer average of 6.8 percent (see **R3.2**).

Practical Ideas for Cutting Costs and Ways to Generate Alternative Revenue Sources (Adsit, 2005) recognizes that the quality of student education depends on the effectiveness of teaching and learning. Reductions in funds could undermine the quality of instruction unless districts take the time to critically examine the issues at stake and establish priorities for decision making. The key is to find the best ways available to improve the effectiveness of curriculum and instruction for the least amount of dollars. Individualized instruction is essential to disabled students and districts need to develop approaches for handling reductions in funds and staff while continuing to meet the needs of the special population.

The Council of the District of Columbia in Washington D.C. recognized the need for improvement in its special education services. As part of a collaborative effort, issues within the special education program were identified and proposed actions and timelines for addressing the issues were established. The *Action Plan for Special Education Reform* (2008) involves specific procedures for the District of Columbia Public Schools to implement. These procedures include: requiring employees to participate in training on special education to reduce the number of inappropriate referrals; requiring principals to provide monthly reports on special education data and share their success and challenges with one another to improve performance; and developing building level committees to identify and plan alternative instructional strategies for students who experience learning or behavior problems in the classroom. MEVSD could use aspects of this Plan to guide its actions in implementing leading practices within its special education program.

Many special education costs are driven by State regulations and federal law. However, opportunities exist to reduce these costs. The Joint Annual Conference of the Illinois Association of School Boards, Illinois Association of School Administrators, and Illinois Association of School Business Officials, in their *Special Report of the 2003 Joint Annual Conference* (2004) discusses methods of controlling special education costs. Examples of methods districts could use to increase efficiency and reduce special education costs included:

- Monitoring student progress frequently;
- Using interventions in the regular education classroom for at-risk students;

- Increasing non-special education options such as peer mentoring, counseling, and teaching of study skills;
- Providing the least restrictive environment;
- Increasing curricular flexibility;
- Hiring flexible teachers;
- Complying with state and federal regulations;
- Looking for prevention interventions; and
- Providing high quality early education programs.

While MEVSD has implemented some of these measures, it should continue to explore additions to these and other strategies to ensure its special education services are cost effective and provide appropriate educational services to its special education students. This could include the development of a special education plan, similar to District of Columbia Public Schools, with specific issues, measurable goals, timelines, and targeted savings for the special education program.

Along with an examination of these methods, districts should continually evaluate the use of external resources, including county ESCs and other neighboring school districts, to ensure the optimal allocation of resources. The ODE Office of Exceptional Children provides leadership, assistance, and oversight to school districts that provide instruction for students with disabilities. Internal training for employees responsible for the development of student IEPs can improve program efficiency of services provided.

Determining the types of disabled children within the District, identifying the significant services that drive special education expenditures, and evaluating options for providing these services may help the District reduce its special education costs to a level comparable to the peers. Additionally, MEVSD should consider providing additional training on IEP development, service models, and special education funding to those employees directly involved in providing services to special needs students.

Financial Implication: If MEVSD could reduce special education expenditures per student to a level comparable to the peer average it would save approximately \$1.6 million over the five-year forecast period. Because individual IEPs regulate specific services and adjustments to operations may span more than one fiscal year, MEVSD should work to recognize this savings over a five year period. Instituting strategies to reduce direct special education costs could save the District \$320,000 annually.

Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section of the report. The financial implications are divided into two groups: those that are not, and those that are subject to negotiation. Implementation of those recommendations subject to negotiation requires agreement from the District's bargaining unit.

Table 3-8: Summary of Financial Implications

Recommendations	FY 2009-10
Recommendations Not Subject to Negotiation	
R3.2 Eliminate 7.0 FTE educational support staff by start of FY 2009-10	\$138,000
R3.3 Eliminate the pick-up retirement benefit for administrative employees ¹	\$102,000
R3.8 Reduce special education expenditures	\$320,000
Recommendations Subject to Negotiation	
R3.4 Negotiate a pro-rated health insurance scale for part time employees	\$84,000
Total Financial Implication	\$644,000

Source: AOS Recommendations

¹ Savings is based on the elimination of the pick-up retirement benefit at the expiration of each administrator's individual contract. Annual savings is estimated to increase to \$150,634 in FY 2010-11 and \$193,121 in FY 2011-12 for a total savings of \$446,000 by the end of the forecast period.

Facilities

Background

The facilities section focuses on custodial, maintenance, and groundskeeping staffing; operations; expenditures; and building utilization in the Milford Exempted Village School District (MEVSD or the District). Throughout this section, MEVSD's operations are evaluated against selected peer school districts¹ as well as leading practices and operational standards, including those promulgated by the American Schools and University Magazine (AS&U), the National Center for Education Statistics (NCES), and the Government Finance Officers Association (GFOA).

Summary of Operations

In FY 2006-07, MEVSD operated nine school buildings, including a high school (9th through 12th grades), a middle school (7th and 8th grade), six elementary schools (kindergarten through 6th), and a preschool/extended day school. The District also owns and maintains a bus garage, a maintenance/food service building, a middle school used as the District administrative building, and a middle school building that is leased to a private school. Furthermore, due to the additional space needed for educational purposes the District has four modular units, three of which are regularly used. The District's buildings are situated on a total of 228 acres

The facilities maintenance organizational structure consists of 30 custodians, each of whom is assigned to report to one of the District's nine head custodians and the Director of Building Services (the Director). Building principals will approach either the head custodian of the building or the Director if a problem arises with the custodial or maintenance services at their building. In addition to the custodial staff, one contracted HVAC employee and seven maintenance employees report to the Director.

The configuration and utilization of District buildings, including modular units, is at approximately 88.2 percent of capacity. An enrollment report prepared in FY 2003-04 projects the District's student population will increase by 145 students by FY 2014-15, resulting in a total of 1,879 students. If enrollment continues to increase as expected, the District may need additional classroom space (see R4.1).

MEVSD has policies and procedures which clearly address the health and safety conditions of its facilities. All principals and teachers have security plans for their respective buildings. These

¹ See the **executive summary** for a list of the peer districts.

“crisis response” plans are secured in a binder and given to each building principal. The crisis response binders include procedures for lockdowns, tornado drills, fire drills, securing the building, and evacuations which are practiced as mandated by Ohio Revised Code (ORC) § 3737.73. Crisis information contained in the binders is also included in the teachers’ employee manual.

Staffing

Table 4-1 shows MEVSD FY 2007-08 custodial, maintenance and grounds staffing levels.

Table 4-1: MEVSD Staffing Levels

Classification	Number of Positions
Total Custodians	38.6
Total Maintenance and Grounds ¹	9.0
Total	46.6

Source: MEVSD EMIS report

¹ The maintenance and grounds staff share duties.

As shown in **Table 4-1**, the District employs a total of 38.6 full time equivalent (FTE) custodians, consisting of 9 FTE head custodians and 29.6 FTE custodians. These employees are responsible for sweeping and mopping floors, vacuuming rooms, emptying wastebaskets, picking up trash, dusting and various groundskeeping duties including ensuring the safety of the playgrounds and shoveling snow from the sidewalks during the winter months.

The District also employs eight maintenance assistants responsible for the maintenance, operation and repair of building systems, furniture, and equipment. Of the eight maintenance assistants, one is on temporary disability and has applied for permanent disability and another is a contracted employee from Debra-Kuempel. The contract is for one 40 hour employee to maintain and operate the District’s four HVAC monitoring and refrigeration systems. Other services under the contract include training employees in HVAC maintenance and repair, and the development and implementation of a preventive maintenance program for all HVAC units. Debra-Kuempel also evaluates the condition and life expectancy of facility equipment for use in capital improvement planning.

Table 4-2 shows certain key statistics and performance indicators for MEVSD in comparison to various benchmarks based on the average of the most recent five years of the *Maintenance and Operations Cost Study* (AS&U, 2003-2007) and statistics from the *Planning Guide for Maintaining School Facilities* (NCES, February 2003), which are included in the table and are used throughout this section of the report. **Table 4-2** also shows the District’s building configurations and square footage for FY 2007-08.

Table 4-2: MEVSD Key Statistics and Indicators

Number of School Buildings	9
High School	1
Junior High	1
Elementary Schools	6
Middle School/Success Academy	1
Preschool	1
Number of Non-Education Buildings	4
Total Square Feet Cleaned	820,580
Boyd E. Smith Elem. (3 FTEs)	54,533
Charles L. Seipelt Elem. (3 FTEs)	44,556
Miami Pre-School (2 FTEs)	40,156
South BOE (0.5 FTE)	23,400
Main (0.25 FTEs)	4,000
Junior High (4 FTEs)	91,568
High School (13.25 FTEs)	260,267
McCormick Elementary (3 FTEs)	74,000
Mulberry Elementary (3 FTEs)	74,000
Meadowview Elementary (3 FTEs)	74,000
Pattison Elementary (3 FTEs)	74,000
Maintenance/Food Service Offices (leased) (0.125 FTE)	2,900
Bus Garage (0.5 FTE)	3,200
Square Feet Per FTE Custodial Staff Member (38.6 FTEs)	21,245
NCES National Average	29,500
Maintenance square footage	915,988
Boyd E. Smith Elementary	54,533
Charles L. Seipelt Elementary	44,556
Miami Pre-School	40,156
South BOE	27,900
Main	78,400
Junior High	91,568
High School	260,267
McCormick Elementary	74,000
Mulberry Elementary	74,000
Meadow Elementary	74,000
Pattison Elementary	74,000
Maintenance/Food Service Offices (leased)	10,000
Bus Garage	12,608
Square Feet Per FTE Maintenance Staff Member (5.3 FTEs including one contracted employee)¹	144,705
Five Year Average AS&U Annual Cost Survey National Median for Maintenance	92,000
Total Acres Maintained	228
Acres per FTE Grounds Staff Member (1.67 FTE)	136.5
Five Year Average AS&U Annual Cost Survey National Median for Grounds	42

Source: OSFC, AS&U, NCES, District EMIS report.

Note: Only seven maintenance assistants are working. One is on temporary disability applying for permanent disability.

¹The Director noted that the maintenance employees and groundskeepers work as necessary to maintain the facilities and grounds.

As shown in **Table 4-2**, MEVSD's custodians clean a total of 820,580 square feet and each custodian cleans an average of 21,245 square feet which is lower than the NCES National Average of 29,500. The District uses an internal benchmark of 22,000 to 25,000 square feet per custodian. On the other hand, MEVSD maintenance employees maintain substantially more than the recommended square footage.

Financial Data

Table 4-3 illustrates the District's General Fund Maintenance and Operations Department (MOD) expenditures.

Table 4-3: MEVSD Historical MOD Expenditures

	FY 2004-05	FY 2005-06	Percent Variance	FY 2006-07	Percent Variance
Salaries	\$1,998,677	\$1,707,457	(14.6%)	\$1,708,653	0.1%
Benefits	\$603,450	\$666,191	10.4%	\$789,118	18.5%
Purchased Services	\$1,917,918	\$1,075,951	(43.9%)	\$914,792	(15.0%)
Utilities	\$1,452,999	\$1,547,809	6.5%	\$1,656,754	7.0%
Supplies and Materials	\$554,662	\$299,527	(46.0%)	\$356,915	19.2%
Capital Outlay	\$40,055	\$90,798	126.7%	0	(100.0%)
Capital Outlay/Replacement	\$0.00	\$0.00	N/A	0	N/A
Other	\$0.00	\$0.00	N/A	\$85	N/A
Total General Fund	\$6,567,761	\$5,38,732	(17.97%)	\$5,426,316	(0.72%)

Source: MEVSD Budwork reports.

The significant variances in expenditures shown in **Table 4-3** are explained as follows:

- Salaries and Benefits – health benefits have increased each year for the last three years. In addition, the District has reduced the number of part time staff while increasing the number of full time staff. This resulted in a reduction of salaries and an increase in benefits.
- Purchased Services – the District reduced the level of security at the school buildings which resulted in a reduction of \$140,000. The District also reduced the level of maintenance and repairs due to its impending financial distress.
- Capital Outlay – In FY 2004-05, \$40,000 was spent on new equipment and general upkeep. In FY 2005-06, the District spent about \$80,000 on playground equipment at the elementary schools, \$5,000 on general upkeep of buildings, and \$4,000 on new equipment. Due to the financial condition of the District, capital outlay expenditures were eliminated in FY 2007-08.

Table 4-4 compares MEVSD's General Fund custodial and maintenance expenditures on a per square foot basis to the peer average and to the AS&U national median for FY 2006-07.

Table 4-4: FY 2006-07 Maintenance and Custodial Expenditures per Square Foot

	MEVSD	Peer Average	Difference	AS&U Median	Difference
District Square Feet	850,573	570,606	(49.1%)	N/A	N/A
Personal Services/ Benefits Per Square Foot	\$2.94	\$2.83	3.6%	\$2.56	14.7%
Purchased Services (excluding utilities)	\$1.08	\$0.79	37.0%	\$0.01	10,655.0%
Utilities	\$1.95	\$1.72	13.1%	\$1.71	13.9%
-Electricity	\$1.47	\$0.98	49.9%	N/A	N/A
Materials and Supplies	\$0.42	\$0.33	27.6%	\$0.30	39.9%
Capital Outlay	\$0.00	\$0.05	(100.0%)	\$0.02	N/A
Miscellaneous	\$0.00	\$0.02	(99.4%)	\$0.49	N/A
Total General Fund	\$6.38	\$5.74	11.2%	\$5.09	25.3%

Source: MEVSD and peer district 4502 and the AS&U Annual Maintenance and Operations Cost Study five year average.

As shown in **Table 4-4**, total General Fund maintenance and custodial expenditures exceeded the peer average and the AS&U national median. Specifically, MEVSD had higher personal services/benefits expenditures per square foot due to the low square footage cleaned per custodian. In addition, purchased services exceeded the peer average by 37 percent due to the addition of a security monitoring system. Lastly, high electricity expenditures were the primary reason for the District's total utility costs being approximately 13 percent higher than the peer average and AS&U median (see **R4.3**).

Audit Objectives for the Facilities Section

The following questions were used to evaluate facilities management practices within MEVSD:

- Does the facility maintenance operation use appropriate performance and cost-efficiency measures and interpretive benchmarks to evaluate each function and does it use these in management decision making?
- Has the District established procedures and staff performance standards to ensure efficient operations?
- Is the District's custodial and maintenance staffing comparable to best practices?
- Does the District provide a staff development program that includes appropriate training for maintenance and operations staff to enhance worker job satisfaction, efficiency, and safety?
- Are District energy management practices comparable to best practices?
- Are the District's facility management and planning practices comparable to best practices?
- Does the Maintenance and Operations Department have a system for prioritizing maintenance needs consistently throughout the District?

Recommendations

Facilities Planning

- R4.1 MEVSD should develop a facilities master plan that incorporates all recommended elements including a five-year capital improvement plan and maintenance projects. The facilities master plan should be updated at least annually to include overall health and safety information from the County Board of Health and information from the building evaluations performed by the Director. In addition, MEVSD's facilities master plan should contain up-to-date enrollment projections and capacity analyses for all District buildings. These documents, or planning tools, are essential for long-term facilities management and efficient District facility operations. With implementation of an effective facilities master plan, MEVSD will be in better position to make important facilities decisions based on complete and accurate information.**

The Ohio School Facilities Commission (OSFC) completed a master plan for MEVSD in 2004. At the time, the District eliminated its internal master plan and began using the plan developed by OSFC. The Director stated that MEVSD's ability to continue to follow the OSFC master plan is contingent on the passage of levies.

The District has developed a capital improvement plan for FY 2008-09 through FY 2010-11. This plan shows the original proposed plan along with the Board-approved changes. The Director historically completed bi-monthly building evaluations; however, due to the financial condition of the District, he reduced the frequency of these evaluations. The last building evaluation was completed in December of 2007.

According to *Creating a Successful Facilities Master Plan* (Dejong and Associates, 2001), school districts should develop a long-term facilities master plan. The plan should contain information related to capital improvements and financing, preventive maintenance and work orders, overall safety and condition of buildings, enrollment projections and capacity analysis. The plan should be developed on a foundation of sound data and community input. A facility master plan, if developed appropriately, has the potential to have a significant effect on the quality of education in a school district. As a road map, the facility master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facility master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, as well as changes in demographics or other educational directions.

Best Practices in Public Budgeting (GFOA, 2000) states that governments should develop specific capital project options for addressing capital needs that are consistent with financial, programmatic, and capital policies. This type of capital planning is necessary to give adequate consideration to longer-range goals, evaluate funding requirements and options, and achieve consensus on the physical development of the community. An evaluation of alternative mechanisms helps ensure that the best approach is chosen for the use of a capital asset or facility based on the policies and goals of the government.

Because the District uses the OSFC master plan, it has not recognized the need for creating a facilities master plan of its own. Furthermore, due to the financial condition of the District, regularly scheduled building evaluations are not completed as frequently. Finally, without a five year capital improvement plan, the District may not be able to accurately plan for the replacement of critical equipment, which may result in the investment of funds in a manner which is not conducive to effective facilities management.

R4.2 MEVSD should amend its work order process to include prioritization guidelines and an estimated time of completion for each priority level. The maintenance priority list should rank health, safety and life threatening issues as a top priority. Clear communication of this priority list will help those initiating the work order understand not only the amount of time it may take the maintenance department to complete a work order repair, but also the order in which their request may be addressed.

Furthermore, MEVSD should develop a formal preventive maintenance program for all school buildings, much like the one required by the OSFC for its four new elementary buildings. A well developed preventive maintenance program ensures equipment reliability, reduces operating costs and increases the life expectancy of facilities and equipment. The formal preventive maintenance program should be integrated into the District's existing work order system.

MEVSD administrators stated they had implemented prioritization guidelines during the course of the audit.

MEVSD has an electronic work order system which it uses to manage facility-related repairs. Work orders are sent via email from the originator (the principals' secretaries or Head Custodian) to the Director. The Director sets the priority level at low, medium or high based on his knowledge and experience and sends it to the appropriate maintenance employee. Upon receipt of the work order, the system will notify the originator that the work order has been received and assigned. If the work order is not completed in 30 days it is automatically sent back to the Director and the issue is addressed as necessary.

Although this work order system has the means to track the cost and labor hours for each work order, the Director stated this would be an inefficient use of time and, as a result, he does not direct maintenance staff to complete these fields.

The Director also noted that the District does not have a comprehensive preventive maintenance (PM) plan for its buildings. However, the district has preventive maintenance plans for HVAC, roofs, refrigerators and floors. The Director also noted that the District will be compiling a maintenance plan as directed by OSFC for its four new elementary buildings.

According to the *Planning Guide for Maintaining School Facilities* (National Center for Education Statistics (NCES), 2003), work order systems help districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. At a minimum, work order systems should account for the date the request was received, the date the request was approved, a job tracking number, job status (received, assigned, ongoing, or completed), job priority (emergency, routine, or preventive), job location, entry user (the person requesting the work), person assigned to the job, supply and labor costs for the job, and job completion date/time. Upon completion of work, the craftsman should record all labor and parts needed to complete the job and submit the completed work order to the maintenance office for close-out. The supervisor must determine that the quality of the work meets or exceeds departmental standards. Upon closing out a work order, all information about the request should be placed in a database for future historical and analytical use (i.e., determining the yearly cost of building maintenance).

NCES, further states that maintenance entails much more than just repairing broken equipment. In fact, a well-designed facility management system generally encompasses four categories of maintenance: emergency (or response) maintenance, routine maintenance, preventive maintenance, and predictive maintenance. The *Preventive Maintenance for Local Government Buildings* (Minnesota Offices of the Legislative Auditor (MOLA), 2000) contains guidelines for preventive maintenance of government buildings. In this publication, MOLA suggests the following seven practices in developing a preventive maintenance plan:

- Inventory building components and assess their conditions;
- Build the capacity for ranking maintenance projects and evaluating their costs;
- Plan strategically for preventive maintenance in the long and short term;
- Structure a framework for operating a preventive maintenance program;
- Use tools to optimize preventive maintenance programs;
- Advance the competence of maintenance workers and managers; and
- Involve appropriate maintenance personnel in decision making and in communicating buildings' needs.

Since the District does not communicate the priority guidelines for its work orders, the initiators of the work order may feel that their work order is being ignored. Furthermore, the absence of information about the costs and time used to make repairs hinders the District's ability to accurately project the costs of certain projects and integrate these into its capital improvement and preventive maintenance plans. Finally, the lack of a formalized preventive maintenance program that is linked to a work order system makes it difficult to ensure maintenance requirements are being executed, and may jeopardize the viability of warranty claims. As the District has an electronic work order system, it could automate its preventive maintenance program, prioritize projects, and capture cost data through this system at no additional direct cost to the District.

Energy Management

R4.3 MEVSD should augment its energy conservation policy by developing and implementing operating procedures designed to reduce energy consumption; periodically conducting energy/building audits; tracking energy use and costs; and implementing a program to educate staff and students on energy conserving behaviors. When the opportunity arises for the District to add another HVAC monitoring system, it should ensure that no bids are accepted unless the system is compatible with existing systems and can be run from a central location.

Although MEVSD has an energy conservation policy, it has not been enforced and specific programs for energy conservation have not been implemented and communicated across the District. Also, the education of staff and students on this topic has not been recognized as a high priority in the past. The District's overall utility expenditures were 14 percent higher than the peer average. Electricity costs, which can be significantly affected by the actions of District staff and students, were almost 50 percent higher than the peer average as shown in **Table 4-4**.

The District's energy conservation policy states that it will develop and implement operating procedures to reduce energy consumption. The policy also states the District will continually assess energy consumption and make the appropriate recommendations for improved use of energy resources. One major component of the District's energy management plan is periodic building energy audits which may take into consideration:

- Building construction;
- Mechanical systems (heating, cooling, ventilation);
- Lighting and use of glass;
- Building use (during the day, after school, evenings or weekend);
- Utility costs or measurement of fuel consumed;
- Weather;

- Building age;
- Floor space, and
- Insulation condition.

Although the District has this policy in place, few employees were aware of its existence. Furthermore, operating procedures were not written and energy audits have not been performed. During the course of this audit, the Director and the Administrative Secretary have focused their efforts on the energy conservation program in response to the rising cost of energy. The Administrative Secretary has begun tracking the use of electricity and gas on a spreadsheet and comparing it to the prior year's usage. She also checks the accuracy of the invoices received from the utility vendors. Furthermore, the District has elected to turn off the air conditioning units for all buildings after school hours and during the summer months when school is not in session.

The District has implemented energy conservation measures such as removing one lamp from all three lamp light fixtures; however, this was discontinued due to concerns over the effect on student learning. The District purchases gas and electricity through consortiums, has implemented HVAC control systems, and puts energy conservation signs above all the light switches. It is also researching the cost effectiveness of installing occupancy sensors in all rooms. The District plans to have a private contractor examine its computerized energy management systems to reprogram it as necessary, thereby enabling the systems to operate at the most efficient levels. This contractor will also make recommendations regarding lighting schedules and the replacement of malfunctioning equipment. The District also contracted with a utility company to examine its energy, water and phone usage and make cost saving recommendations. MEVSD is examining the recommendations and deciding which to implement.

All MEVSD school buildings, with the exception of Boyd E. Smith and Charles Seipelt Elementary schools, have modern, centralized HVAC systems that are monitored and controlled through one of the existing four remote access systems; however, these systems are not linked together (see **R4.3**).

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), the cost of energy is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. The following guidelines will help a school district achieve more efficient energy management:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the district's energy management program, and give this energy manager access to top-level administrators; and
- Monitor each building's energy use.

According to *School Operations and Maintenance: Best Practices for Controlling Energy Costs* (U.S. Department of Energy (DOE), 2004), there are several areas on which districts may focus in order to reduce excess energy consumption. These areas include:

- Lighting strategies;
- Computers and office equipment;
- The building envelope;
- HVAC;
- Water heating;
- Kitchen;
- Swimming pools; and
- Vending machines.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) describes energy management systems as computer-controlled systems that operate HVAC units. They can automatically turn air conditioning, lights, and boilers on and off according to pre-programmed instructions entered by facilities staff. Investment in energy management systems are generally recouped within a few years.

Financial Implication: By implementing a formal energy conservation plan, the District could reduce its energy expenditures by 5 to 15 percent annually which would lead to savings of \$82,000 to \$245,000.

Custodial & Maintenance Staffing

R4.4 MEVSD should reduce its custodial staff by at least 2 FTEs and accurately identify the maintenance responsibilities of the head custodians. This would enable the District to approach the national benchmark of 29,500 square feet per custodian. The District's custodial staff may be able to maintain the same level of cleanliness in the schools with the development of specific procedures contained in a custodial handbook and reinforced through proper training (see R4.6 and R4.5). Eliminating two custodial positions and reclassifying head custodial duties to reflect the maintenance services that these personnel perform would bring the District in-line with the following benchmarks: 29,500 square feet per custodian, 92,000 square feet per maintenance assistant and 42 acres per groundskeeper. However, if the District continues to encounter financial difficulty, it could consider a further reduction in custodial FTEs. The District should also consider developing a benchmark for maintenance personnel that accurately reflects the level of in-house maintenance performed versus contracted services.

During the course of the audit, MEVSD eliminated one custodial position and is scheduled to eliminate another in FY 2008-09. In addition, the District shifted one FTE custodian to the maintenance function.

Table 4-2 displays MEVSD's custodial, maintenance, and grounds employees. Based on the NCES national benchmark of 29,000 square feet per custodian, MEVSD is overstaffed by 9 FTE custodial positions. However, the District's head custodians primarily perform light maintenance functions during their shifts which may result in an inaccurate depiction of the number of custodial and maintenance FTEs. In contrast, the District is significantly understaffed in groundskeeping FTEs in comparison to the maintenance and grounds benchmarks set forth by the AS&U. The District's buildings are located on approximately 228 acres, all of which are maintained by the maintenance and groundskeeping staff. The groundskeeping staff and the maintenance assistants work together depending on the District's needs. The groundskeeping staff has historically consisted of two groundskeepers that help with maintenance as directed. Recent cuts, however, have required the maintenance staff to help, as needed, with groundskeeping work. The Director noted that an equivalent of four maintenance assistants work three days per week, six months out of the year on grounds-related work.

Table 4-5 displays MEVSD's FY 2006-07 workload ratios, as well as these ratios after the proposed staffing reductions and redistributions.

Table 4-5: MEVSD Redistributed Workload Based on Industry Benchmarks

	FY 2006-07 Workload	Industry Benchmark	Redistributed Workload
Sq. Ft. per Custodial FTE	21,245	29,500	29,731
Sq. Ft. per Maintenance FTE	144,705	92,000	91,598
Acres per Groundskeeper FTE	136.5	42	45

Source: MEVSD, NCES, and AS&U magazine.

As shown in **Table 4-5**, reallocating staff and hiring an additional maintenance FTE would help the District achieve optimal staffing levels. However, the absence of formal preventive maintenance plans (see **R4.2**) and written custodial operating procedures and performance standards (see **R4.5**) could make setting, monitoring, and achieving targeted workload ratios difficult.

Financial Implication: By eliminating 2.0 FTEs, starting with the least senior custodial positions, the District would save approximately \$76,000 annually in salaries and benefits.

Performance Standards and Training

R4.5 MEVSD should create a formal training program that outlines training for new employees. In addition, the District should provide routine training when cleaning or maintenance standards are changed due to the introduction of new equipment, technology, or procedures. To reduce training costs, the District should continue to use available manufacturer training programs to acquaint employees with new processes and equipment. MEVSD should ensure that the completion of training is formally documented to provide evidence that all employees have received the most up-to-date training available and to help ensure the overall effectiveness and efficiency of all staff.

According to the Director, the District has not provided new employee training for custodians or maintenance workers because new employees are hired with experience and already have a general knowledge of job duties. The District also has not developed a standardized training program that incorporates new employee training, ongoing training programs on standard and routine procedures, or training for custodial and maintenance staff as new equipment, technology, or procedures is introduced. MEVSD ensures, however, that employees attend annual in-service safety training which includes topics such as Lock Out-Tag Out, Confined Spaces, Asbestos Awareness, Blood Borne Pathogens, Safe Lifting, and Hazardous Communications. Also, in FY 2006-07 the District implemented a training program for head custodians. A custodian who has been promoted to head custodian undergoes one week of training with the head custodian at another building. The Director also noted that training was given to the operators of a scissor lift when the District purchased it.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) suggests that because a person has been taught how to perform a specialized task does not mean that they will be able to perform the task in the future, especially if the task is not a regular part of his or her routine. While there is a trade-off between the benefits of staff training and the costs of lost work time during training, preparing staff to perform their work properly, efficiently, and safely is generally cost-effective. Documentation of ongoing training programs would allow the District to report any training events that were conducted and who completed the events. This would serve as a monitoring system to ensure that all custodial and maintenance staff completed the required training.

The District completes and documents annual in-service training for maintenance and custodial staff. However, the District does not currently offer formal routine training nor does it keep documentation that staff is trained when new equipment, technology, or procedures are implemented.

Implementing a District-wide training program would enable MEVSD to ensure that all employees are prepared to use the latest equipment, technology, and procedures. Furthermore, documentation of ongoing training programs would help the District record all training events that were conducted and note who completed the events. This would serve as a monitoring system to ensure that all custodial and maintenance employees complete the required training programs. Employees that are properly trained will be better able to meet performance standards that result in clean, well-maintained facilities at a reasonable cost.

R4.6 MEVSD should update its custodial handbook and reissue it to all custodians. The District should develop and implement a similar a policy and procedures manual for the maintenance staff. In updating the custodial manual and developing the maintenance manual, the District should ensure that all elements recommended by the Association of School Business Officials International (ASBOI) as well as any other procedures the District feels necessary.

The Director indicated that a formal policy and procedures manual has not been used for custodial or maintenance employees; however, the District has used a custodial handbook and cleaning procedures guide in previous years. The head custodian of the building demonstrates for the custodians their daily route on their date of hire. Any remaining tasks outside of their daily routine are also assigned by the Head Custodian. In place of a manual, custodial and maintenance employees receive job descriptions that include many detailed performance responsibilities. The job descriptions show the majority of the duties they are expected to perform. As detailed as this job description may be, they do not override the need for a detailed employee manual. In fact, the job description is just one element that should be contained in the custodial and maintenance manual.

The *Custodial Methods and Procedures Manual* (Association of School Business Officials International, 2000) states that a manual should outline staffing standards, daily duties and tasks, job descriptions, job schedules, evaluations, and cleaning procedures and methods for various job tasks. In addition, the International Sanitary Supply Association has developed a training program manual designed to help train custodians. The program details the correct cleaning methods, as well as the proper use of custodial equipment. This manual details procedures, guidelines, and pointers on the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;
- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;

- Scrubbing/stripping;
- Spray buffing/ high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

Without a formal custodial and maintenance handbook that details the District's policies and procedures for cleaning and maintaining its facilities, MEVSD increases the risk of staff inconsistently, inefficiently, and/or ineffectively performing job functions. Improved consistency, achieved through standardized District-wide custodial and maintenance procedures, will enhance the effectiveness of the custodial and maintenance personnel and reduce the costs associated with equipment, supplies and labor. As the District has already developed a custodial handbook, updates to the custodial manual and the implementation of a maintenance handbook could be accomplished within existing resources.

R4.7 MEVSD should develop and implement formal performance standards that are used to consistently evaluate the efficiency and effectiveness of the maintenance and custodial operations and help ensure that all buildings are maintained equitably. The District should use these performance standards to communicate job expectations and assess staff performance, which will invariably enhance the efficiency and the effectiveness of the maintenance and custodial functions.

The Director indicated that the District uses job descriptions as its communication of formal performance standards. The job descriptions are used as the basis for evaluating employee performance and evaluations are administered for custodial, maintenance, and groundskeeping staff every two years. The Director contacts the respective building principal to get input on the head custodian's evaluation and the head custodian is contacted to provide input on the custodians' evaluations. There are no formal policies or procedures in place to ensure that the buildings are equitably maintained, although the Director relies on building evaluations and the principals to provide information on the maintenance needs of their respective buildings.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) states that to assess staff productivity and ensure that all schools are maintained equitably, a district must establish performance standards and evaluation criteria. A district must collect and maintain accurate, timely, and comprehensive data when evaluating staff. Good decision-making requires good data and documentation. Collecting the data requires effort, but it is a necessary task. Such data could include the number of square feet cleaned and/or maintained, work orders completed, grounds acreage and/or facilities maintained,

windows cleaned, and building inspections completed to ensure routine custodial and maintenance duties are performed.

Without formally established standards for maintenance activities, the District cannot ensure that all schools are maintained equitably. The lack of formal performance standards could result in employees interpreting standards inconsistently and applying more lax or wasteful practices.

Customer Satisfaction

R4.8 MEVSD should create a formal feedback mechanism to gauge the level of satisfaction with the services of its maintenance and custodial functions through an annual maintenance and custodial satisfaction survey. The survey should be provided to all facilities users and should be designed in a manner consistent with recommended practices like those identified in the *Planning Guide for Maintaining School Facilities* (NCES, 2003). The survey should be compiled, analyzed, and documented to facilitate monitoring of performance satisfaction over time.

The District does not use surveys to gauge facility user's perceptions regarding the facility operations. Interviews with each of the building principals indicated that, although the custodial levels were perceived as adequate, building principals stated that recent reductions in custodial staff have been noticeable. In addition, they also noted the maintenance of the buildings could be completed in a more timely fashion. Some principals attributed this to the District's financial constraints.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that surveys can be used to evaluate custodial and maintenance work, and provides a sample customer survey form for gaining feedback about custodial and maintenance services. Many of the day-to-day activities or systems used to plan and operate a maintenance program also generate the type of information needed to evaluate program effectiveness. This information includes user feedback/customer satisfaction surveys. There are many ways to gather information from users/customers (i.e. the people who benefit from the maintenance/custodial activities), including collecting satisfaction surveys and convening advisory committees of stakeholders.

Without facility user surveys, the District cannot effectively pinpoint and address departmental shortcomings. Furthermore, the lack of formal feedback mechanisms may hamper the District's ability to effectively prioritize its work to address high-risk areas, as identified by direct users. Finally, without feedback on its performance, the Department can not remedy issues identified by facility users to ensure the District's facilities meet expectations.

Financial Implications Summary

The following table summarizes the estimated annual cost savings identified in this section of the report.

Table 4-6: Summary of Financial Implications for the Facilities Section

Recommendation	Annual Cost Savings
R4.3 Implement an energy conservation program	\$82,000
R4.4 Eliminate 2 FTE custodians	\$76,000
Total	\$158,000

Source: AOS recommendations

Transportation

Background

This section of the performance audit focuses on transportation operations in the Milford Exempted Village School District (MEVSD or the District). Transportation operations were evaluated against best practices, operational standards, and selected peer school districts.¹ Comparisons were made for the purpose of developing recommendations to improve the efficiencies and/or effectiveness of business practices and, where appropriate, reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources including the American Association of School Administrators (AASA), Association of School Business Officials (ASBO), the Legislative Office of Education Oversight, and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Transportation Policy

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in kindergarten through grade eight who live more than two miles from their assigned school. Districts are also required to provide transportation to non-public and community school students on the same basis as is provided to their own students. In addition, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. Finally, when required by an individualized education program (IEP), school districts must provide specialized door-to-door transportation to special needs students based on the unique needs of the child.

In an effort to reduce transportation related expenditures, MEVSD administrators reduced transportation service to State minimum levels beginning in January 2007. As a result, the District does not provide transportation to high school students or those students that live within two miles of their assigned building. Exemptions to this policy are granted to special education students as dictated by their IEPs.

Organizational Structure and Responsibilities

On July 28, 2001, MEVSD entered into an agreement (the Contract) with Petermann, LLC (Petermann or the Contractor) to manage its transportation services. The District opted to contract for this service because the contract contained an aggressive bus replacement plan

¹ See the **executive summary** for a list of the peer districts.

which would rapidly improve the poor condition of its yellow bus fleet. Pursuant to this contract, Petermann provides management for the District's transportation services through a full time Transportation Director who is employed by Petermann. The Transportation Director manages MEVSD's Transportation Department and has supervisory responsibilities for all transportation personnel, including an administrative assistant, 2 routers, 4 mechanics, and 61 bus drivers, all of whom are District employees. The Transportation Director reports to the Superintendent and HR Director and is responsible for preparing State transportation reports, among other duties.

Operational Statistics

Table 5-1 provides MEVSD's historical operational data as reported to ODE.

Table 5-1: State Minimum Transportation Operating Statistics

Key Statistics	MEVSD FY 2006-07	MEVSD FY 2007-08	Percentage Change
Yellow Bus Riders (Type I)			
Public	4,008	1,676	(58.2%)
Non-Public	708	589	(16.8%)
Special Needs	70	127	81.4%
Total Yellow Bus Riders	4,786	2,392	(50.0%)
Non-Public as a Percentage of Total Riders	14.8%	24.6%	9.8%
Buses			
Active Buses	97	61	(37.1%)
Total Miles Driven	954,180	686,520	(28.1%)
Spare Buses	16	16	N/A
Yellow Bus Riders per Active Bus	49	39	(20.4%)

Source: MEVSD and peer district T-1 Reports, T-2 Reports, Cupp Reports, and SF-3 Reports.

Table 5-1 illustrates the effect of MEVSD's reduction in service to State minimum standards. Starting in January 2007, the number of students transported by MEVSD was drastically reduced. In FY 2007-08, MEVSD transported 50 percent fewer students than the previous year. Along with the reduction in riders, the District was able to reduce its fleet by 36 buses. **Table 5-1** also illustrates the large proportion of total riders that are transported to non-public schools. It is important to note that subsequent to the reduction in service levels, MEVSD decreased the number of public riders transported by 58.2 percent. However, the District was only able to eliminate 16.8 percent of non-public riders. After the service level changes, non-public riders comprised approximately 25 percent of total riders compared to approximately 15 percent before the changes were implemented.

The efficiency of a district's transportation function is primarily measured by its bus utilization—the ability to achieve an optimal number of students per bus. Normally, when a district reduces a significant number of buses like MEVSD did in FY 2007-08, its rider-per-bus ratio experiences a significant increase. However, the District's riders-per-bus decreased by

approximately 20 percent in FY 2007-08. This is primarily the result of the District transporting students to the 35 private/parochial schools surrounding MEVSD (R5.1).

Expenditure Ratios

Table 5-2 shows MEVSD's expenditures per rider, per bus, and per mile compared to the peer average.

Table 5-2: Yellow Bus Expenditure Comparison FY 2007-08

	MEVSD	Peer Average	Percent Above (Below)
Total Yellow Bus Expenditures	\$3,738,641	\$1,694,695	54.7%
Per Yellow Bus Rider	\$781	\$555	40.8%
Per Active Bus	\$38,542	\$41,884	(8.0%)
Per Routine Mile	\$3.92	\$3.95	(0.8%)

Source: MEVSD and peer district T-2 Reports

Table 5-2 illustrates that in FY 2007-08, MEVSD's expenditures per rider exceeded the peer average by a significant margin (40.8 percent). Although MEVSD's cost per active bus and per routine mile were lower than the peer district average, the high cost per rider is indicative of operating with low ridership levels. High expenditures per rider were driven primarily by low ridership levels and higher wages and benefits caused by MEVSD having more experienced drivers when compared to the peer districts. The District reduced its transportation service levels to State minimums in January, 2008. As a result, the District now employs more experienced drivers as the reduction in force impacted 39 of its least tenured drivers. Salary schedules for bus drivers were comparable to a sample of surrounding districts and drivers are not guaranteed hours in their bargaining agreement.

Table 5-3 displays MEVSD's historical transportation expenditures including FY 2007-08 which reflects a full year of operation at State minimum standards.

Table 5-3: MEVSD Historical Transportation Expenditures

	FY 2005-06	FY 2006-07	% Change	FY 2007-08	% Change
Salaries	\$2,220,236	\$1,921,341	(13.5%)	\$1,639,226	(14.7%)
Benefits	\$1,211,630	\$1,192,864	(1.5%)	\$915,136	(23.3%)
Maintenance & Rep	\$239,252	\$254,122	(6.2%)	\$185,300	(27.1%)
Fuel	\$427,211	\$299,438	(30.0%)	\$335,572	12.1%
Bus Insurance	\$81,296	\$66,700	(17.9%)	\$58,934	(11.6%)
All Other Costs	\$12,932	\$4,176	(67.7%)	\$3,394	(18.7%)
Total	\$4,192,557	\$3,738,641	(10.8%)	\$3,137,562	(16.1%)
Transportation Expenditures as a % of Total General Fund Expenditures	9.9%	8.8%	N/A	8.4%	N/A

Source: MEVSD T-2 Reports

As shown in **Table 5-3**, MEVSD has steadily reduced transportation expenditures since FY 2005-06. In total, the District reduced expenditures by 10.8 percent and 16.1 percent in FY 2006-07 and FY 2007-08, respectively, primarily as a result of the reduced transportation service levels. MEVSD successfully reduced expenditures in every category except FY 2007-08 fuel expenditures (due to increased fuel prices). As a result, the percentage of total general fund expenditures allocated to the transportation function decreased from 9.9 percent in FY 2005-06 to 8.4 percent in FY 2007-08. However, additional opportunities to reduce costs through increased efficiency still exist.

Audit Objectives for the Transportation Section

The following questions were used to evaluate the transportation operation in MEVSD:

- How do the District's transportation policies and procedures compare with best practices and impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District's "yellow bus" (Type I & II) transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost effectiveness of transportation operations through improved human resource management?
- Is the District providing specialized transportation services in an effective and efficient manner?
- Is the District effectively managing its contracted transportation operations?

Recommendations

Operating Efficiency

R5.1 The District should eliminate 18 regular needs buses to bring its public riders-per-bus ratio closer to the recommended utilization rate of 150 students per bus for a three-tiered system. To achieve this ridership level, MEVSD should conduct frequent ridership counts and recalibrate routes to achieve maximum ridership levels. In addition, MEVSD should set a riders-per-bus benchmark at the recommended utilization rate and periodically evaluate the contractor's success in achieving established ridership levels.

In order to increase ridership for non-public yellow bus service, MEVSD should identify schools that can be clustered and served by single routes, request that non-public schools tailor their bell schedules to accommodate transportation service, and increase the use of shuttles. Lastly, in instances where the District feels transportation is impractical or inefficient, it should offer payment-in-lieu or contract for service with other districts in an effort to eliminate inefficient routes.

During the course of the audit the District changed its two-tiered routing system to a three-tiered routing system in an effort to reduce transportation costs. Under the three-tiered system, the District was able to reduce 10 routes for FY 2008-09 and estimated savings from this shift in tiers of approximately \$720,000. These savings were included in the District's May 2008 forecast. Administrators also stated the FY 2008-09 transportation reports to the Ohio Department of Education showed it had achieved an average utilization rate of 50 riders per bus per tier.

MEVSD's total riders-per-bus ratio of 39 is a cause of the high expenditures per bus illustrated in **Table 5-1**. Because of low ridership levels, the District operates an excessive number of buses and incurs higher than necessary salary and operational costs. In FY 2007-08, the District transported students using a two-tiered routing system—buses made two morning runs and two afternoon runs. MEVSD, however, did not run a true two-tiered system, because some buses cannot complete two morning and two afternoon routes per day. This is due to the number of non-public schools to which MEVSD must provide service. In addition to 9 District schools (including preschool), MEVSD also provides transportation to 35 private/parochial schools that are an average of 12.9 miles from the District (see **Appendix 5-1** for a list of private/parochial schools served by MEVSD).

Pursuant to ORC § 3327.01, MEVSD is required to provide transportation to pupils to and from the nonpublic or community school which they attend unless transportation is

deemed impractical under ORC § 3327.02. Due to its location, MEVSD transports an abnormally high number of non-public riders in relation to total riders. After reducing service to State minimum standards in FY 2007-08, non-public riders accounted for 24.6 percent of total riders, significantly higher than the peer district average of 7.5 percent. This causes low utilization rates as many of the non-public schools have few students living in the District but require District-provided yellow bus service. The following example illustrates the impact of the non-public schools on District ridership: Route #1, which provides service to All Saints School in Montgomery, Ohio, transports only 17 students. Route #7, which provides service to Cincinnati Hills Christian Academy Middle and Elementary Schools in Cincinnati, Ohio, transports only 19 students. In total, MEVSD provides transportation for 61 students that attend these two schools but must use 5 different routes to provide service (approximately 12 students on each route). **Table 5-4** illustrates how private/parochial transportation requirements affected MEVSD's FY 2007-08 ridership levels.

Table 5-4: MEVSD FY 2007-08 Regular Needs Ridership

	Average Riders per Bus
Total	45.3
Public Routes	53.6
Non-public Routes	31.4

Source: MEVSD T-Forms and ODE Enrollment Reports

As shown in **Table 5-4**, MEVSD's non-public ridership was 42 percent lower than ridership on public routes. According to *Hidden Savings in Your Bus Budget*, (American Association of School Administrators (AASA), 2005) effective pupil-to-bus ratios should average at least 100 pupils on a two-tier routing system. As shown by MEVSD's regular riders per bus ratio of 45.3, the District was well below the national benchmark identified by the AASA. It should be noted that, while the non-public transportation requirement was a primary factor in its low total ridership ratio, MEVSD's public ridership ratio was also significantly lower (46 percent) than the recommended utilization rate.

Some districts have reduced operating costs by using a three tiered system. In May 2008, the Board approved the implementation of a three-tiered routing system. At that time, MEVSD estimated that a move to a three tiered routing system could save the district approximately \$720,000 per year.

MEVSD could further reduce operating costs by achieving a riders-per-bus ratio on its public routes similar to the benchmark established by AASA. In order to accomplish this, the District would need to eliminate 18 buses, which would bring its public riders-per-bus ratio to approximately 135. Lowering the number of buses used to transport private/parochial students may be particularly difficult due to State requirements.

However, the District may be able to achieve a level near the national benchmark by eliminating routes through consolidation, changing bell times, determining when routes are impractical, and conducting periodic rider counts and route recalibration. During the course of the audit, MEVSD identified seven non-public schools for which transportation services provided by the District was impractical. For these schools, the District will eliminate traditional yellow bus service.

Financial Implication: Increasing the bus utilization rate to a level closer to 150 riders per bus would permit the District to eliminate 18 buses and result in savings of approximately \$850,000 annually, based on FY 2007-08 expenditures.

R5.2 MEVSD should seek to eliminate 1.5 FTE clerical/router positions by renegotiating the contractual requirement to employ a router(s). This revised staffing level would better reflect the reduction in service to State minimum levels and bring transportation operational personnel closer to the peer district average. In addition, it would bring the workload for the remaining clerk/router to a level more commensurate with the peers.

During the course of the audit the District shifted the cost for the Assistant to the Transportation Director position to its Contractor.

MEVSD has one administrative assistant and two routers. These positions are recorded on the T-2 Form under the secretary/clerk classification and are responsible for supporting transportation operations, routing, student changes, making address changes, etc. **Table 5-5** displays MEVSD's administrative assistant and router staffing levels before and after the implementation of State minimum standards. In addition, staffing levels for FY 2006-07 are compared to the peers on a per 1,000 students transported basis.

Table 5-5: Secretary Clerk Staffing Comparison

	Riders	Secretary Clerk FTE Reported on T-2	Secretary Clerks/1,000 Students Transported
MEVSD FY 2006-07 T-1	4,786	3.0	0.6
MEVSD FY 2007-08 T-1	2,392	3.0	1.3
Peer Average 2006-07	2,877	1.4	0.5
MEVSD August 2008 Difference From Peer Average			0.8
FTE Difference			1.9

Source: MEVSD and Peer T-forms

As shown in **Table 5-5**, MEVSD had secretary/clerk staffing levels similar to the peer district average when operating under the Board-established transportation policy. However, after implementing State minimum standards, the District did not reduce any

administrative staff. When comparing FY 2007-08 secretary/clerk staffing levels to the FY 2006-07 peer average, MEVSD employed 0.8 more secretary/clerk FTEs per 1,000 students transported. Taking into consideration the FY 2007-08 ridership level of 2,392, the District is overstaffed by 1.9 FTEs in comparison to the peer average.

Financial implication: If the District eliminates 1.5 FTE routers, it could save approximately \$72,000 annually in salaries and benefits.

- R5.3 MEVSD should employ formal benchmarks to better monitor its contract and ensure efficient, high quality service is provided by Petermann. The District should establish benchmark thresholds for common transportation ratios such as cost per mile, per student, and per bus, as well as riders per bus. It should then periodically assess the Contractor's performance against these established performance benchmarks to ensure that service quality remains consistent with the District's expectations.**

The District should assign the responsibility of coordinating and monitoring the transportation contract to a specific employee. A formal contract monitor would help ensure compliance with contract terms and performance expectations, aid in the identification and resolution of problems, and be in a position to make suggestions for improvement. Additionally, the District should require Petermann to provide monthly reports for use in evaluating and assessing Contractor performance against the established benchmarks.

Furthermore, prior to any negotiation of contract extensions, renewals, or requests for proposal for a new contract, the Contractor's performance should be fully evaluated in relation to established performance expectations. Specifically, the District should closely examine the students-per-bus ratio and the Contractor's ability to meet the national benchmark (see R5.1). The District should also use bus repair information provided by the mechanics to determine the appropriateness of the bus replacement schedule and to renegotiate the price of the additional maintenance charge on buses 12 years and older.

During the course of the audit, the District was able to negotiate a temporary freeze on the additional maintenance fee that its contractor charges for buses 12 years and older.

MEVSD has not established any formal benchmarks by which to assess Contractor performance, nor does it regularly monitor the contract. Although Petermann has the ability to produce reports for maintenance and repair costs, the number of students per bus, and the number of miles per gallon of fuel, the District only requires provision of a monthly invoice showing the number of routes run by Contractor-owned buses and the

number of routes run by Board-owned buses. Prior to entering into the Contract, MEVSD did not establish goals for the contract outside of rapidly improving the age and condition of its bus fleet. The District has achieved its primary goal, having improved the fleet to an average bus age of 7.7 years and an average of approximately 81,000 miles per bus.

On May 2, 2005 an amendment was signed to extend the original contract to FY 2010-11. Although the District's contract meets all the best practice standards noted by NSAA, the original contract and the second amendment to the contract do not have favorable bus replacement or maintenance provisions, as illustrated by the following provisions:

- An additional amendment to the contract was approved on July 27, 2007, which states the Board shall pay \$1,820.37 for each contractor-owned daily bus and \$1,010.42 for each board-owned daily bus per month. As of February 2008, the District had 29 Board-owned buses and 48 Contractor-owned buses running 61 active routes. The rate is stipulated to increase by 4 percent each July until 2010.
- No bus under the amendment to the contract may exceed 15 years of age. In order to meet the terms of the Contract, the District would have to replace seven buses in FY 2008-09, thereby increasing the cost of transportation by about \$42,000 annually.
- Finally, Petermann charges an additional \$3,690 per year for maintenance costs for each Board-owned bus that exceeds 12 years of age. Ten buses meet this criteria and are assessed the additional charge.

In July 2008, the District and the Contractor agreed to remove the stipulation in the Contract requiring that a minimum of 55 daily routed buses be maintained. Since the District operated 57 routes in FY 2007-08 and is planning to eliminate additional routes under its three-tiered transportation system—buses making three morning runs and three afternoon runs. This provision would have limited cost savings derived from more efficient routing or a decrease in total ridership.

Best Practices for Contracting Services (National State Auditors Association (NSAA), 2003) states that organizations should develop performance requirements that hold vendors accountable for the delivery of quality services. Performance requirements should clearly state the services expected and clearly define performance standards and measurable outcomes. In addition, NSAA recommends that organizations identify how vendor performance will be evaluated and include positive or negative incentives. In order to properly assess service in comparison to performance standards, staff should be assigned the responsibility for monitoring vendor performance. Furthermore, NSAA recommends that after contract completion, agencies evaluate contractor performance

against a set of pre-established, standard criteria and retain this record of contract performance for future use.

Because it has not implemented formal performance benchmarks, MEVSD can not assess the efficiency and effectiveness of the Contractor. Performance ratios such as riders per bus, cost per bus, fuel and maintenance cost per mile and per rider, riders per mile, and cost per mile would help the District to assess performance in key areas of transportation services. Without established benchmarks, the District may not be able to accurately manage the performance of the Contractor or determine the cost-effectiveness of its contract.

R5.4 MEVSD should develop and implement a system of written policies and procedures to ensure T-Form information is collected, reviewed, and reported accurately. In addition, the Treasurer and Superintendent should attend the ODE transportation training to enable them to better ensure the accuracy of T-Form data.

The collection and submission of required transportation ridership and cost data has historically been an informal process at MEVSD. The Transportation Director correctly collects all bus driver October count information as required by ODE. In addition, the Director retains a copy of non-routine trip information for the T-1 Report to prorate all the appropriate expenditures used for regular student transportation. Informal checks and balances are in place to ensure year-end approval by the Treasurer and Superintendent. However, because this process is informal, the continued collection and submission of accurate transportation data is not assured if administrative turnover occurs.

According to *Student Transportation in Ohio* (Legislative Office of Education Oversight (LOEO), 2003), accuracy problems for transportation related data exist in a number of school districts, especially in terms of the number of students transported, daily bus miles traveled per student, and district transportation costs. The first step in ensuring accurate data is for a district to create and adhere to formal policies and procedures that govern submission of district T-forms.

Because management of the buses, routes and T-Form reporting are part of the management duties governed by the agreement with Petermann, MEVSD has not prioritized the need to develop formally documented T-Form procedures. Without written procedures that identify the process and methodology for completing and reviewing the T-Forms for accuracy and completeness, MEVSD risks submitting erroneous information to ODE. Inaccurate information may then result in the delay or omission of a portion of the District's transportation reimbursement.

R5.5 The Board and Transportation Committee should review and update District policies on an annual basis to ensure they reflect current practices and the Board's intent. Policies should be clear, accessible on the District web site, developed with community input, and reflective of the service provided (including special education transportation). The transportation policy should identify who has authority to grant exceptions and describe the general process for determining if an exception should be granted.

The District should continue to assess non-routine expenditures but should establish a policy and procedures for their reimbursement. The policy should outline the manner in which fees are established and the appropriate method for tracking and monitoring services. MEVSD should charge all costs associated with non-routine miles to the appropriate department and fund within the District. Although some special revenue funds may not be able to support all non-routine transportation charges, understanding the nature and magnitude of the transportation costs for particular functions is critical to MEVSD's financial and strategic planning processes.

The Transportation Department follows Board policies, however; these policies are not reviewed or updated annually. In addition, MEVSD does not have a special needs transportation policy. Instead, it transports students according to IEPs. The District has not developed a transportation handbook for bus drivers, although during the course of the audit, the Transportation Director stated she would be working with the District and Petermann to create one. Although the District has helpful information about FY 2008-09 school building start times and student drop-off and pick-up information for the community on its website, it does not have transportation Board policies available.

The District has a policy on the non-routine use of buses that states all non-routine use must be pre-approved by the building principal and the Superintendent eight days prior to the trip. MEVSD also uses a form to track non-routine miles. These forms are used to ensure that only the routine mile expenditures are included on the T-2 reports. Furthermore, in FY 2007-08 the District drafted a bus idle policy to conform to the mandates in Jarod's Law.

According to *Key Legal Issues for Schools* (Association of School Business Officials (ASBO), 2006), the general operating procedures for school boards should include annual reviews of all new and existing policies to determine whether modifications should be made on the basis of implementation and experience. ASBO further recommends that school boards consider developing a policy review committee to identify issues and situations that should be considered for annual policy review.

Historically, the District has placed little emphasis on reviewing and updating its transportation policies because the Transportation Department is managed by Petermann. Therefore, its transportation policies could be excluding important elements. Keeping drivers and the community informed with up to date policies helps ensure student safety and effective transportation. Also, policies that do not reflect the actual intent and practices of the District do not provide sufficient direction to administrators and are open to interpretation or misunderstanding. Finally, not charging for the non-routine use of buses unduly burdens the General Fund with these costs. Charging the cost of non-routine use of buses to MEVSD users will not only potentially reduce some of the transportation costs to the General Fund, but may also make the users more aware of the cost associated with non-routine transportation.

R5.6 The District should research the feasibility of using contracted services or partnering with other school districts to provide service to its special needs students that are transported to schools outside of the District.

During the course of the audit, the District established a partnership with local districts to share expenses for transporting students to the Ohio School for the Blind in Columbus and St. Rita School for the Deaf.

MEVSD transports 127 special needs students on 14 buses. Special needs riders increased approximately 80 percent from FY 2006-07 levels because of growth in the program and an increase in the number of Individualized Education Plans (IEP) mandating transportation. Of the 14 buses that transport special needs students, 5 transport 3 students or less per day.

Special needs transportation is provided according to each student's IEP and transportation personnel are present at all IEP meetings to provide input on transportation provisions. MEVSD mainstreams special needs students to the extent that IEPs allow. In FY 2007-08, the District operated six buses that transported both special needs and regular riders.

The District has not contracted with surrounding districts to provide transportation to special needs students in cases where only a single MEVSD student may attend a location. However, during the course of the audit, District administrators began to examine the feasibility of forming agreements with surrounding districts to provide special needs transportation to select students.

OAC § 3301-51-07 (D) (3) requires that special needs transportation be provided as required by the child's IEP. In regard to the formulation of IEPs, OAC § 3301-51-10 (C)(2) states that school district transportation personnel shall be consulted in the preparation of the IEP when transportation is required as a related service and when the

child's needs are such that information to ensure the safe transportation and well-being of the child is necessary to provide such transportation. Further, all specialized transportation services must be outlined in student IEPs. Section (D)(3) states that all appropriate information for the medical care of the student should be available in the vehicle or readily accessible. However, the OAC does not prohibit districts from contracting for transportation of special needs students in a variety of creative fashions.

By failing to consider the feasibility of contracting with surrounding districts or other contracting options, MEVSD may be missing an opportunity to improve the efficiency of its program to transport special needs students.

Financial Implications Summary

The following table summarizes the estimated annual cost savings identified in this section of the report.

Table 5-6: Summary of Financial Implications for the Transportation Section

Recommendation	Annual Cost Savings
R5.1 Eliminate 18 regular needs public routes ¹	\$130,000
R5.2 Eliminate 1.5 FTE clerical/routers	\$72,000
Total	\$202,000

Source: AOS recommendations

¹ Net of \$720,000 in savings projected by the district in its May 2008 forecast for the elimination of 10 buses in FY 2008-09.

Appendix 5-A: List of Non-Public Schools

Table 5-A1 displays the non-public schools for which MEVSD is required to provide student transportation services.

Table 5-A1: Non-public Schools Served by MEVSD

School	Miles from MEVSD
All Saints	8.3
Children's Meeting House	10.0
Cincinnati Country Day	2.5
Cincinnati Christian Academy	10.3
Clermont Northeastern	12.8
Genesis Center	17.5
Immaculate Heart of Mary	12.9
Laurel Oaks	32.2
Live Oaks	4.8
Mc Nicholas	10.0
Mercy Montesorri	13.1
Miami Valley Christian	5.0
Midwestern Children's Home	13.8
Moeller	8.1
Mount Notre Dame	17.6
Ohio School for the Blind	109.0
Ohio Valley Voices	7.2
Prince of Peace	5.4
Queen of Angels	5.8
Scarlet Oaks	14.3
Seven Hills	7.0
Saint Andrew	0.6
Saint Columbian	8.3
Saint Elizabeth Seton	5.0
Saint Gertrude	4.3
Saint Margaret of York	11.3
Saint Marks	5.3
Saint Rita School for the Deaf	18.3
Saint Veronica	4.9
Saint Vincent Ferrer	6.7
Linden Grove	8.1
Ursuline Academy	12.0
Village Christian	13.8
Wasserman	13.0
Wildley	11.2
Average	12.9

Source: MEVSD

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District Response

The letter that follows is the Milford Exempted Village School District's (MEVSD) official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.



Milford Exempted Village Schools

Board of Education

777 Garfield Avenue Milford, Ohio 45150

Phone: 513-831-1314

Fax: 513-831-3208

Business Office Fax: 513-831-0628

Treasurer's Office Fax: 513-831-0645

www.milfordschools.org

December 2, 2008

Mary Taylor, Auditor of State
88 East Broad Street
Columbus, Ohio 43216

Dear Mrs. Taylor,

We sincerely thank the Performance Audit Team for the thorough and thoughtful analysis of our operational systems which included finances, human resources, facilities and transportation. The meetings and discussions with the audit team helped to provide support and rationale for the 2.5 million dollars in reductions that were adopted by our school district in May 07 for the 07-08 school year. All of the recommendations of the Performance Audit Team will be considered by the board and administration, and many of the recommendations in this report have already been implemented or are in the process of being implemented by the Milford School District.

With the reductions implemented by our school board, continued fiscal restraint within our operational systems, the recent passage of our school operating levy and the implementation of some of the other recommendations of the Performance Audit Team, the Milford School District will be removed from "Fiscal Caution" by the Ohio Department of Education. Our pledge to our community is to provide a quality education while exercising conservative fiscal practices. Working with the Performance Audit Team has helped us to move forward in achieving this goal.

We have also appreciated the willingness of the Performance Audit Team to spend the time to learn about our district and engage our personnel in discussion about how to make our operational systems as efficient as possible.

Sincerely,

Dr. Robert B. Farrell
Superintendent

Mrs. Debbie Marques
Milford School Board President



**Auditor of State
Mary Taylor, CPA**

**Office of the Auditor of State of Ohio
88 E. Broad Street
Columbus, Ohio 43215
(800) 282-0370
www.auditor.state.oh.us**